



**REPORT**

Item No: 9

<b>SUBJECT:</b>	Internal Audit Update
<b>TO:</b>	Performance, Finance and Audit Committee
<b>Lead Officer for Report:</b>	Chief Accountable Officer
<b>Author(s) of Report</b>	Chief Financial Officer
<b>DATE:</b>	2 <sup>nd</sup> May 2018

**1. PURPOSE OF REPORT**

1.1 This paper is coming to the Performance, Finance and Audit (PFA) Committee:

For approval	<input checked="" type="checkbox"/>	For endorsement	<input type="checkbox"/>	For noting	<input type="checkbox"/>
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1.2 This report provides the details of the financial management & financial planning internal audit assignment undertaken as part of the 2017/2018 internal audit plan for the Integration Joint Board (IJB).

**2. ROUTE TO THE PERFORMANCE, FINANCE AND AUDIT COMMITTEE**

2.1 This paper has been:

Prepared By; Chief Internal Auditor, NHS Lanarkshire Health Board and Head of Audit and Inspection, North Lanarkshire Council	Reviewed By; Chief Financial Officer	Endorsed By; Chief Accountable Officer
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**3. RECOMMENDATION**

3.1 The PFA Committee is asked to note the contents of the report.

**4. BACKGROUND/SUMMARY OF KEY ISSUES**

4.1 This report presents the results of the recently completed internal audit work undertaken by NHS Lanarkshire (NHSL) and North Lanarkshire Council (NLC) in line with the approved North Lanarkshire IJB Internal Audit Plan for 2017/2018.

4.2 The completed audit report, which is attached, was designed to assess and provide independent assurance to the IJB's Performance, Finance and Audit Committee on the financial management and financial planning arrangements for the IJB.

4.3 The lead for the audit of the financial management and financial planning arrangements for the IJB was the Chief Internal Auditor of NHS Lanarkshire. On conclusion of the internal audit fieldwork, the Head of Audit and Inspection for North Lanarkshire Council was consulted.

**5. CONCLUSIONS**

- 5.1 Internal audit concluded that the financial management and financial planning arrangements are consistent with financial guidance/regulations and good practice through the production of an annual financial plan, identification of financial risks in the IJB risk register and the identification and monitoring of savings. No issues or weaknesses have been identified.
- 5.2 The internal auditors concluded therefore that this audit offered 'substantial assurance'. This means that it is considered that the control environment is adequate and has substantially operated as intended.

**6. FINANCIAL MANAGEMENT AND FINANCIAL PLANNING AUDIT**

- 6.1 The scope of the audit was to provide independent assurance that the IJB has robust mechanisms in place designed to ensure implementation of the financial plans to achieve the objectives within the available funding.
- 6.2 The findings of the internal audit are detailed in the attached report. No issues or weaknesses have been identified by internal audit.
- 6.3 Notwithstanding this conclusion, the Chief Financial Officer will continue to work with both partners to further develop the strategic financial framework for the health and social care partnership.

**7. IMPLICATIONS**

**7.1 NATIONAL OUTCOMES**

This relates to all nine national outcomes.

**7.2 ASSOCIATED MEASURE(S)**

The IJB and both partners are required to achieve a balanced budget for each financial year. An effective financial framework contributes to this outcome.

**7.3 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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**7.4 PEOPLE**

None.

**7.5 INEQUALITIES**

EQIA Completed:

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

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

None.

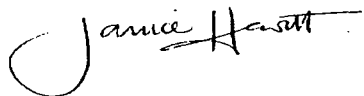
**9. APPENDICES**

Financial Management & Financial Planning Internal Audit Report

Appendix

**10. VARIATIONS TO DIRECTIONS**

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



<b>Subject:</b>	Financial Management & Financial Planning Internal Audit Report
<b>To:</b>	Chief Accountable Officer
<b>Lead Officer:</b>	Chief Financial Officer
<b>Author(s) of Report:</b>	Chief Internal Auditor, NHS Lanarkshire Health Board and Head of Audit and Inspection, North Lanarkshire Council
<b>Date:</b>	2 May 2018

## 1. Purpose of Report

- 1.1 This report presents a summary of the results of the audit undertaken under the joint direction of the Chief Internal Auditor, NHS Lanarkshire Health Board (NHSL) and the Head of Audit and Inspection, North Lanarkshire Council (NLC) in line with the North Lanarkshire Integration Joint Board (IJB) 2017/2018 Internal Audit Plan.
- 1.2 This report is therefore intended to provide assurance to the IJB Performance, Finance and Audit Committee on the recently completed financial management and financial planning audit.

## 2 Background and Summary of Key Issues

- 2.1 The scope of the audit was to review that the IJB has robust mechanisms in place designed to ensure implementation of the financial plans to achieve the objectives within the available funding.
- 2.2 The work included consideration of whether:
- 2017/18 financial plans support and are congruent with the overall Strategic Commissioning Plan;
  - Budgets are prepared in accordance with guidance;
  - There is a robust process for long-term strategic financial planning which has been implemented and clearly documented, supported by robust forecasting mechanisms;
  - Financial plans have been updated and adjusted for changing circumstances and future needs as well as overtly reflecting organisational priorities;
  - Financial risks and risks to the achievement of the financial plan have been identified and recorded with robust mitigating actions and assurance mechanisms in place;
  - Savings requirements are fully identified, supported by robust data, monitored and have been appropriately risk assessed; and
  - Financial plans are supported by robust data with lessons learned from previous out-turns.
- 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, NHSL and NLC have both delegated functions and

- resources to the 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 NHSL and NLC established the North Lanarkshire Health and Social Care Partnership with a shadow 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.
- 2.6 In accordance with this guidance a Chief Financial Officer was appointed in 2016. The Chief Financial Officer presents an annual financial plan to the IJB. Financial risks have been identified and assessed and are included in the IJB's risk register which is as an agenda item on both the Performance, Finance and Audit Committee and the IJB. Prior to the recent amalgamation in January 2018 of the Finance and Audit Sub-Committee and the Performance, Scrutiny and Assurance Sub-Committee, the IJB risk register was also included as an agenda item for each sub-committee to consider.
- 2.7 NHSL and NLC provide the Chief Financial Officer with monthly/four weekly finance reports which detail the annual budget, year-to-date budget and year-to-date actual expenditure and income for the North Lanarkshire Health & Social Care partnership. Explanations for significant variances are also included in these reports.
- 2.8 In consultation with both partners, the Chief Financial Officer has been developing a long term financial plan as recommended by Audit Scotland in the North Lanarkshire IJB Annual External Audit Report 2016/2017.
- 2.8.1 NLC has provided the Chief Financial Officer with a draft financial plan covering the period 2018/2019 to 2020/2021. This financial plan incorporates the assumptions included within NLC's existing financial planning framework using 2018/2019 as the baseline. The plan also sets out three risk based outcomes: optimistic, envisaged and pessimistic scenarios.
- 2.8.2 Similar to other Health Boards across Scotland, NHSL does not develop long term financial plans. This issue was reported by Audit Scotland in their NHS in Scotland 2017 report issued in October 2017 which recommended "the Scottish Government should develop a longer-term approach to financial planning to allow NHS Boards and integration authorities flexibility in planning and investing in the longer-term policy aim of developing more community-based services". In response to this recommendation, a working group was set up to develop a financial plan for the period up to 2022/2023. The Chief Financial Officer was involved in this working group which focused on the strategic financial planning of both health services and social care services. The Chief Financial Officer has advised that this exercise is in the process of being finalised and it is intended this will influence the medium to long term financial plan for the North Lanarkshire IJB.
- 2.9 In November 2017, the Scottish Government published "The 2018 GMS Contract in Scotland" following agreement with the BMA. It also published "The National Code of Practice for GP Premises" which sets out the Scottish Government's plan to facilitate the shift to a model which does not entail GPs providing their practice premises. The new contract came into effect on 1<sup>st</sup> April 2018.

2.10 Primary care services are a hosted service within the South Lanarkshire IJB. As the lead partner for this hosted service, the South Lanarkshire IJB is responsible for the implementation of the new contract across Lanarkshire.

- The governance arrangements for the implementation of the new GMS 2018 GP contract were set out in a report to the South Lanarkshire IJB on 13 February 2018.
- These governance arrangements were also reported to the North Lanarkshire IJB on 7 February 2018.
- Both IJBs were informed of the two key risks namely the non-availability of finance and the non-availability of workforce which could impact on the ability to deliver the primary care improvement plan within the agreed timescales.

2.11 Audit Scotland also recommended in the North Lanarkshire IJB Annual External Audit Report 2016/2017 that the financial monitoring reports should be reviewed to ensure that they are accurately reflecting the spend to date and the projected year end position.

- The Chief Financial Officer, in consultation with both partners, reviewed and further developed the financial monitoring arrangements for the IJB. Throughout the year, the financial monitoring reports set out the key financial risks including in particular variance explanations in respect of prescribing costs and also the impact of the agreed budget recovery plan on reducing the projected overspend across social care services. It is intended to continue to highlight key financial risks as an integral part of the financial monitoring reports. The Chief Financial Officer agreed to consider best practice examples of how best to present risks.
- The Chief Financial Officer also advised that it was intended to further develop these arrangements across the partnership to align the strategic commissioning plan, the directions to each partner and the financial allocations.

### **3 Conclusion/Opinion**

3.1 Based on our review, we consider that the financial management and financial planning arrangements are consistent with financial guidance/regulations and good practice through the production of an annual financial plan, identification of financial risks in the IJB risk register and the identification and monitoring of savings. No issues or weaknesses have been identified.

3.2 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.

### **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 – Assurance Definitions

Appendix 2 – Responsibilities of Management and Internal Audit

## APPENDIX 1 – ASSURANCE DEFINITIONS

### Assurance Opinion

Level of Assurance	Definition
Substantial assurance	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.
Adequate assurance	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.
Limited assurance	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
Red	Significant weaknesses which management needs to address to achieve objectives.
Amber	Weaknesses which require prompt action to avoid exposure to risks in achieving objectives.
Green	Action advised/area for improvement to enhance control or improve efficiency.

## **APPENDIX 2 – RESPONSIBILITIES OF MANAGEMENT AND INTERNAL AUDIT**

It is the responsibility of the JIB'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 JIB'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'*.