



Scott-Moncrieff
business advisers and accountants

Cùram Is Slàinte Nan Eilean Siar

Western Isles Health and Social Care Partnership

Annual report on the 2015/16 audit to the Integration Joint Board and the Controller of Audit

September 2016

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Executive summary

Cùram Is Slàinte nan Eilean Siar (the Western Isles Integration Joint Board; "IJB") was established as a legal entity on 21 September 2015 by the Public Bodies (Joint Working) (Integration Joint board Establishment) (Scotland) Amendment Order 2015. The IJB however did not assume responsibility for directing services until 1 April 2016.

Annual accounts

The IJB has prepared annual accounts for the period 21 September 2015 (date of establishment) to 31 March 2016.

The annual accounts for the period to 31 March 2016 were approved by the IJB on 22 September 2016. We reported within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters and there were no matters which we were required to report by exception

Our thanks go out to the IJB's management and supporting staff for their co-operation and assistance.

Governance and transparency

The Integration Scheme, approved by the Scottish Government, committed the IJB to developing a comprehensive governance framework. Significant progress has been made to date in the integration of health and social care in the Western Isles. However the overarching governance and operational arrangements for the IJB continue to develop.

Conclusion

This report concludes our audit of the Western Isles Integration Joint Board for 2015/16. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff
September 2016

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Introduction

Introduction

1. This report summarises the findings from our 2015/16 audit of Cùram Is Slàinte nan Eilean Siar (the Western Isles Integration Joint Board; “IJB”). The scope of the audit was set out in our External Audit Annual Plan.
2. The IJB is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
3. This report is addressed to both the IJB and the Controller of Audit and will be published on Audit Scotland’s website www.audit-scotland.gov.uk.
4. We would like to thank all members of the IJB’s management who have been involved in our work for their co-operation and assistance during our audit work.

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Annual accounts

Annual accounts

5. The IJB's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. This section summarises the issues arising from our audit of the 2015/16 annual accounts. The respective responsibilities of the IJB and the auditor in relation to the annual accounts are outlined in Appendix 1.

Overall conclusion

An unqualified opinion on the financial statements

6. The annual accounts for the period to 31 March 2016 were approved by the IJB on 22 September 2016. We reported within our independent auditor's report:
- An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.

Good administrative processes were in place

7. We received draft annual accounts and supporting papers of a good standard. Our thanks go to management for their assistance with our work.

Our assessment of risks of material misstatement

8. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 1 below.

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1.1 Annual accounts

The IJB was established as a legal entity on 21 September 2015 by the Public Bodies (Joint Working) (Integration Joint board Establishment) (Scotland) Amendment Order 2015. As the IJB was established during the financial year 2015/16 it is required to prepare its first set of annual accounts for that period. However, the IJB did not assume responsibility for directing services until 1 April 2016. As a result, we expect there will be only be a small number of financial transactions in 2015/16, principally related to the payment of senior officers.

It is the responsibility of the Chief Financial Officer, as the appointed "proper officer", to prepare the annual accounts in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

The Local Authority Accounts (Scotland) Regulations 2014 stipulate that unaudited accounts must be submitted to external audit no later than 30 June and be considered by the IJB by 31 August. The Regulations also require the audited accounts be approved by the IJB by 30 September.

There is a risk that the IJB, as a new body, may not yet have the processes and procedures in place to produce or provide the financial information required to produce a set of Code compliant annual accounts and the required deadlines may not be adhered to.

Noted in 2015/16 External Audit Plan



9. We reviewed the IJB's draft annual accounts to ensure they had been prepared in accordance with the Code, illustrative integration joint board annual accounts released by the Scottish Government's integrated resources advisory group (IRAG) and subsequent

Exhibit 1: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

additional guidance on accounting for the integration of health and social care released by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).

10. Overall the draft annual accounts had been prepared in line with the Code. We did however identify a couple of adjustments that were required to ensure they reflected the requirements of the Code and additional guidance. These are outlined at paragraph 19.
11. The draft annual accounts were submitted to external audit before 30 June 2016 and were considered by the IJB on 20 June 2016.

1.2 Revenue recognition

Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the Board could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.

Noted in 2015/16 External Audit Plan



12. All income recognised in the IJB's annual accounts relates to the agreed contributions from Comhairle nan Eilean Siar and NHS Western Isles towards the Chief Officer's pay costs and the audit fee. We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the annual accounts.

1.3 Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240.

Noted in 2015/16 External Audit Plan



13. We have not identified any indications of management override in the year. We have reviewed the IJB's accounting records and obtained evidence to ensure that all significant transactions were valid and accounted for correctly.

Our application of materiality

14. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the annual accounts.
15. Our initial assessment of materiality for the annual accounts was £2,000 and remained at this level throughout our audit. Our assessment of materiality is set with reference to gross income. We consider this to be the principal consideration for the users of the accounts when assessing the performance of the IJB.
16. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

| Area risk assessment | Weighting | Performance materiality |
|----------------------|-----------|-------------------------|
| High | 40% | £800 |
| Medium | 55% | £1,100 |
| Low | 75% | £1,400 |

17. We report to the IJB all audit differences in excess of 5% of the overall materiality figure, as well as differences below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the IJB on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

18. The following adjustments were made to the draft annual accounts through the audit process:
- The recognition within the annual accounts of our £5,000 audit fee.
 - The reclassification of the Chief Accountable Officer's pay costs from "Social Work" service costs to "Corporate Management" costs, in line with the Code.
 - The reclassification of partner funding contributions from "Social Work" service income to "Taxation and non-specific grant income" in line with the Code and LASAAC guidance.
 - Various other minor presentational changes.
19. We did not identify any unadjusted audit differences.

Board representations

20. We have requested that a signed representation letter, covering a number of issues, be presented to us at the date of signing the annual accounts.

An overview of the scope of our audit

21. The scope of our audit is detailed in our External Audit Plan. The plan explains that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the IJB. This

ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

22. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
23. Our standard audit approach is based on performing control tests on the significant accounting systems, substantive tests and detailed analytical review. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

24. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:
- Reviewing minutes of relevant meetings;
 - Enquiring of senior management the position in relation to litigation, claims and assessments; and
 - Performing detailed testing of transactions and balances.
25. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Other matters identified during our audit

26. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

27. As part of our audit we reviewed the IJB's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with

respect to regulations 8 to 10¹ as they relate to the annual accounts.

- 28.** We noted that while the unaudited annual accounts were published and available on the internet, no public notice of the right of interested persons to inspect and object to the accounts was prepared. We understand arrangements will be put in place to ensure such a notice is made in future years.

Qualitative aspects of accounting practices and financial reporting

- 29.** During the course of our audit, we consider the qualitative aspects of the financial reporting process. Our findings are reported below

¹ Regulations 8 to 10 relates to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.

| Qualitative aspect considered | Audit conclusion |
|--|---|
| The appropriateness of the accounting policies used. | We have reviewed the significant accounting policies, which are disclosed in the annual accounts, and we consider these to be appropriate to the IJB. |
| The timing of the transactions and the period in which they are recorded. | We did not identify any significant transactions where we had concerns over the timing or the period in which they were recognised. Adjustments were made to the annual accounts in respect of the audit fee (refer to paragraph 18 above). |
| The appropriateness of the accounting estimates and judgements used. | We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts. |
| The potential effect on the annual accounts of any uncertainties, including significant risks and disclosures such as pending litigation that are required to be disclosed in the annual accounts. | We did not identify any uncertainties, including any significant risk or required disclosures that should be included in the annual accounts (beyond the existing disclosures made). |
| The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed in the annual accounts. | From our testing performed, we identified no unusual transactions in the period. |
| Apparent misstatements in the Management Commentary or material inconsistencies with the annual accounts. | There are no misstatement or material inconsistencies with the annual accounts in the Management Commentary. |
| Any significant financial statement disclosures to bring to your attention. | There is no significant financial statement disclosures that we consider should be brought to your attention. All disclosures made are required by relevant legislation and applicable accounting standards. |
| Disagreement over any accounting treatment or financial statement disclosure. | There was no disagreement during the course of the audit over any accounting treatment or disclosure. |
| Difficulties encountered in the audit. | There were no difficulties encountered in the audit. |

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Governance and transparency

Governance and transparency

30. Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Through the Chief Officer and Chief Financial Officer, the IJB is responsible for ensuring the proper conduct of its affairs and for monitoring the adequacy and effectiveness of the related arrangements.

Governance arrangements

31. During our audit we have considered the IJB's overall governance arrangements, taking cognisance of the current work of the IJB's internal auditors. Based on our review, we concluded that overall governance arrangements, for the period to 31 March 2016 were adequate and appropriate. The overarching governance and operational arrangements for the IJB continue to develop.

32. From 1 April 2016 the IJB took on formal responsibility for the strategic planning and direction of health and social care services in the Western Isles. Since that time significant progress has been made in integrating health and social care in the Western Isles.

33. The Integration Scheme outlines the high level governance arrangements for the IJB and the relationship between the IJB, Comhairle nan Eilean Siar and NHS Western Isles. The IJB Strategic Plan sets out the vision for the delivery of health and social care services across the Western Isles through to 2019.

34. The IJB Chief Officer has overall responsibility for the financial management of the IJB. Additionally, he is a member of the senior management team of both the Comhairle and the health board and is officially line managed by the Chief Executives of both parties.

Internal audit

35. The Chief Internal Auditor for the IJB was appointed in December 2015. The internal audit function will be provided by the Comhairle.

36. Internal audit has commenced delivery of its 2016/17 operational annual audit plan and is due to report its findings in respect of the following two reviews shortly:

- IJB Strategic Plan

- Due Diligence and Governance Arrangements

Financial planning

37. In accordance with the Western Isles Integration Scheme, the IJB is required to approve a balanced budget on the basis of funding delegated by the Comhairle and the health board. A balanced budget has been achieved for 2016/17, although this was set in the context of challenging financial pressures experienced by both the Comhairle and the health board. The budget for 2016/17 was agreed at £58.357million.

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Appendices

Appendix 1: Respective responsibilities of the IJB and the Auditor

Responsibility for the preparation of the annual accounts

The IJB is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. The Chief Financial Officer has been designated as that officer by the IJB. The Chief Financial Officer is responsible for the preparation of the IJB's annual accounts in accordance with proper practices as set out in the Code.

In preparing the annual accounts, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with the Code;
- keeping proper accounting records which are up to date; and
- taking reasonable steps to ensure the propriety and regularity of the finances of the Integration Joint Board.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the Code of the state of the affairs of the body as at 31 March 2016 and of the income and expenditure of the body for the period then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003;
- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement of Assurance has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Auditing Practices Board's (APB) Ethical Standard 1: Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.



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