

Midlothian Integration Joint Board

Annual Report to the Board and the Auditor General for Scotland for the financial year ended 31 March 2016

15 September 2016



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1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of the Midlothian Integration Joint Board for 2015-16.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2011). This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

1. Introduction

Purpose of this report

The Midlothian Integration Joint Board (the IJB), was legally established on 27 June 2015 and its first meeting occurred on 20 August 2015.

Grant Thornton were formally appointed as the external auditor for the IJB by the Auditor General for Scotland on 9 October 2015. The appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our audit report is addressed to those charged with governance (the IJB Board) and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan dated 27 May 2016, which was agreed by the IJB Audit and Risk Committee on 9 June 2016.

Midlothian Integration Joint Board's responsibilities

The Public Bodies (Joint Working)(Scotland) Act 2014 established a framework for integration Health and Social Care. A requirement of the Act was that Integration Joint Board should be operational by 1 April 2016.

The Local Authority Accounts (Scotland) Regulations 2014 requires IJB's to:

- prepare financial statements which give a true and fair view of the financial position of Midlothian IJB and its income and expenditure for the year to 31 March 2016
- maintain proper accounting records which are up to date
- take steps to prevent and detect fraud and other irregularities.

Midlothian IJB is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

We are required to conduct an audit of the IJB in line with our appointment under the Audit Scotland Code of Practice (the Code). The Code requires that we undertake our audit in accordance with:

- relevant legislation the Local Government (Scotland) Act 1973 and Local Authority Accounts (Scotland) Regulations 2014
- Statements of auditing standards and applicable Practice Notes issues by the Auditing Practices Board
- The CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code)
- other guidance issued by Audit Scotland

We are required to audit the financial statements and give an opinion as to whether:

- they give a true and fair view of the financial position of the IJB
- the Annual Governance Statement is compliant with relevant guidance
- the part of the remuneration report subject to audit has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014.



2. ISA260 Requirements: Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) (ISA) 260.

We have not had to alter or change our audit approach, which we set out in our audit plan sent to the IJB Audit and Risk Committee on 9 June 2016.

Our Review of the Financial Statements

The draft financial statements of Midlothian IJB were provided in July 2016. The draft financial statements disclosed that the IJB had no financial allocations made to it in 2015/16 by either Midlothian Council or NHS Lothian. The IJB did not expend nor direct any expenditure and accordingly the draft IJB financial statements did not include a Comprehensive Income and Expenditure Account, Balance Sheet or Movement in Reserves Statement.

The IJB were subsequently notified that transactions relating to the costs of the Chief Officer and the audit fee with a corresponding income from NHS Lothian and Midlothian Council needed to be included within the financial statements. The IJB has updated the financial statements to include these transactions.

Financial Statements Opinion

We propose to issued an unqualified opinion on the financial statements of the Midlothian IJB for the year ended 31 March 2016.

Remuneration Report

The Local Authority Accounts (Scotland) Regulations 2014 require IJB's in Scotland to prepare a Remuneration Report as part of the annual financial statements.

Although the IJB does not directly employ staff, all officers are employed through the Health Board or Council. The Remuneration report contained information on the IJB's Chief Officers remuneration.

No misstatement or consistency issues were identified from our audit of Midlothian IJB's remuneration report.

Related Parties

We are not aware of any related party transactions which have not been disclosed. The IJB will need to ensure that formal signed Service Level Agreements (SLA's) are in place for 2016/17.

Annual Governance Statement

We did not identify any instances of non-compliance with the Code in relation to Midlothian IJB's Annual Governance Statement.

"The governance framework was put in place between 27 June 2015 and 31 March 2016 and up to the date of approval of the Statement of Accounts for 2015/16".

Scope of the audit and application of materiality

Our audit plan outlined that we operate a risk based approach to the audit of the financial statements. We consider the inherent risks to the Midlothian IJB and how these may result in a material misstatement in the accounts. At the planning stage we identified two areas with increased risk of material misstatement as outlined on page 7.

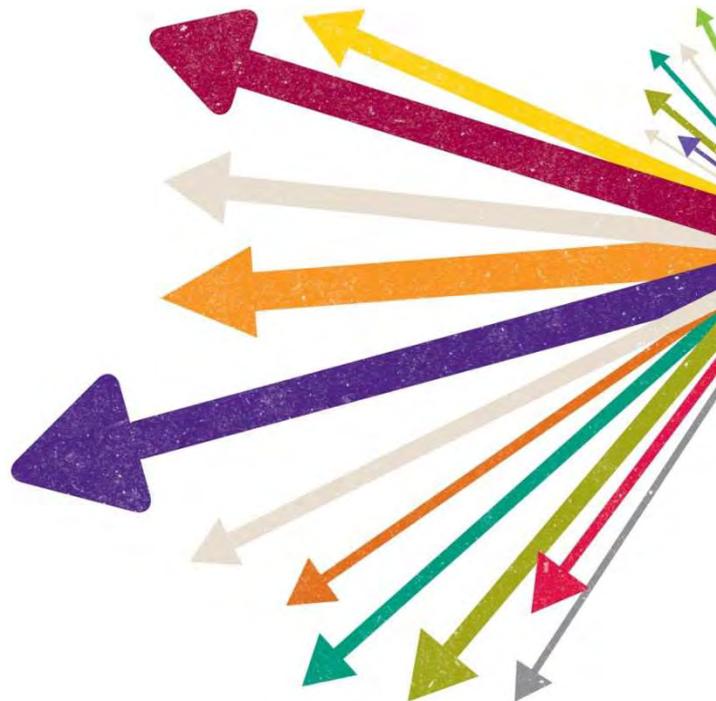
In performing our audit, we apply the concept of materiality, following the requirements of ISA 320: Materiality in planning and performing an audit. The assessment and application of materiality is a matter of auditor judgement. Overall materiality has been set at 1% of gross expenditure at £443.

ISA 320 also sets out a requirement to consider performance materiality, which aims to reduce the possibility of uncorrected misstatements exceeding materiality and is set at £310.

Performance materiality is used to drive the level of audit testing conducted, however given the small number of transactions in year, we have conducted a fully substantive approach and tested all in year transactions.

In line with ISA 360, we reported in our audit plan an amount below which misstatement would be clearly trivial and would not be reported to the Board. We have defined this amount to be £22 for Midlothian IJB.

ISA 360 also requires the auditor to determine areas where account balances or disclosures for which misstatement's lower than materiality could influence the economic decisions of users. We identified that related party transactions and disclosures of senior management salaries and allowances would fall into this category.



Audit findings against significant risks

Set out below is our response to the significant risks of material misstatement identified in the Audit Plan. There are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our Audit Plan	Work completed	Assurances and issues arising
<p>1 Management override of controls</p> <p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls.</p>
<p>2 The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the IJB, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • the only source of revenue was partner contributions to cover costs incurred in the six month period from 20 August 2015 to 31 March 2016. • levels of expenditure will be very low in this period and any attempts to manipulate would be easily identified. • due to low volume of activity during the period 20 August 2015 to 31 March 2016 there is limited opportunity to manipulate revenue. 	<p>Our audit work on Midlothian IJB confirmed that revenue had been recognised appropriately in the financial statements.</p>

Source: External Audit Plan



Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

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Appendix A - Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

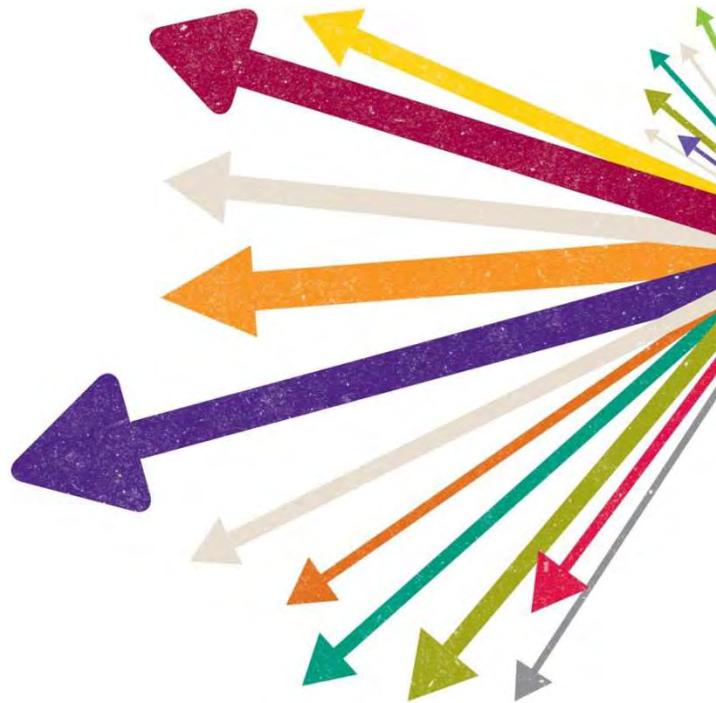
Fees

	Per Audit plan £	Actual fees £
Midlothian Integration Joint Board	5,000	5,000
Total audit fees	5,000	5,000

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practice Board's Ethical Standards.



Appendix B – Audit Opinion



Independent auditor’s report to the members of Midlothian Integration Joint Board and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Midlothian Integration Joint Board for the year ended 31 March 2016 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement and Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the 2015/16 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, We do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Annual Accounts, the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 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 year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 Code; and
- 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.

Opinion on other prescribed matters

In our opinion:

- 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.

Matters on which we are required to report by exception

We are required to report to you 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 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.

We have nothing to report in respect of these matters.

Paul Dossett

(for and on behalf of Grant Thornton UK LLP)

Exchange Crescent
7 Exchange Crescent
Edinburgh
EH3 8AN

September 2016

Appendix C – Letter of Representation

Mr Paul Dossett
Partner
Grant Thornton UK LLP
Exchange Crescent
7 Exchange Crescent
Edinburgh
EH3 8AN

Dear Mr Dossett,

Midlothian Integration Joint Board Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the financial statements of Midlothian Integration Joint Board (IJB) for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain (“the Code”) as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.

We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.

The Board has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance

We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Except as disclosed in the financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the Board has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

We confirm that we are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code requires adjustment or disclosure have been adjusted or disclosed.

We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions ..

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We believe that the IJB's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be adequate for the IJB's needs. We believe that no further disclosures relating to the IJB's ability to continue as a going concern need to be made in the financial statements.

Information Provided

We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit, and
- c. unrestricted access to persons within the IJB and Midlothian Council from whom you determined it necessary to obtain audit evidence.

We have communicated to you all deficiencies in internal control of which management is aware.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the IJB and involves:

- a. management;
- b. employees who have significant roles in internal control, or
- c. others where fraud could have a material effect on the financial statements.

We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the IJBs financial statements communicated by employees, former employees, regulators or others.

We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

We have disclosed to you the entirety of the IJBs related parties and all the related party relationships and transactions of which we are aware.

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

Annual Governance Statement

We are satisfied that the Annual Governance Statement (AGS) fairly reflects the IJBs risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Management Commentary

The disclosures within the 'Management Commentary' fairly reflect our understanding of the Board's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the IJB at its meeting on 15 September 2016.

Signed on behalf of the Midlothian Integration Joint Board

Signed

Name: David King

Position: Chief Financial Officer

Date: 19 September 2016



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