



North Ayrshire Health & Social Care Partnership

2015/16 Annual Audit
Report for members of
North Ayrshire Integration
Joint Board and the
Controller of Audit

September 2016

Key contacts

Fiona Mitchell-Knight, Assistant Director
fmitchell-knight@audit-scotland.gov.uk

Paul Craig, Manager
pcraig@audit-scotland.gov.uk

Stephanie Harold, Senior Auditor
sharold@audit-scotland.gov.uk

Audit Scotland
4th Floor South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow G2 1BT
Telephone: 0131 625 1500
Website: www.audit-scotland.gov.uk

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Fiona Mitchell-Knight Assistant Director, Audit Scotland is the engagement lead of **North Ayrshire Health & Social Care Partnership** for the 2015/16 year.

This report has been prepared for the use of **North Ayrshire Health & Social Care Partnership** and no responsibility to any member or officer in their individual capacity or any third party is accepted.

Contents

Key messages	3
Introduction	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability	10
Governance and transparency	15
Best Value.....	20
Appendix I: Significant audit risks.....	25
Appendix II: Summary of North Ayrshire Integration Joint Board local audit reports 2015/16.....	30
Appendix III: Summary of Audit Scotland national reports 2015/16	31
Appendix IV: Action plan	32

Key messages

Audit of financial statements

- This is the first year that the partnership has operated, and published its accounts.
- We have issued an unqualified independent auditor's report on the 2015/16 financial statements. They have been prepared in accordance with accounting regulations and guidance.
- The accounts were prepared in time to facilitate the consolidation of figures into the health board's accounts in June.

Financial management & sustainability

- The Board has satisfactory financial management arrangements in place and the financial position is sustainable but challenging. Regular budgetary control reports are provided to the Board and to the partner bodies.
- The partnership spent £234 million on delivering health and social care services for the residents of North Ayrshire.
- There was an overspend of £2.109 million in 2015/16 against budget. North Ayrshire Council agreed to fully fund the overspend. A recovery plan was approved by the Board and includes an action to improving financial forecasting.
- The Board had to set its 2016/17 budget in advance of confirmation of the health board's settlement. Any significant change to this could impact the level of service provided by the Board.

Governance & transparency

- Effective governance arrangements are in place.
- We obtained audit assurance over the accuracy and completeness of financial transactions processed by the partner bodies.
- Internal audit services provided to the Board comply with Public Internal Audit Standards. A protocol should be in place which ensures all internal audit work and subsequent reports are considered by and approved by the IJB.
- The Board could make more information about how it operates publicly available.

Best Value

- The Board was one of the first established in Scotland, and has shown a very high level of commitment to the integration agenda.
- The three Ayrshire IJBs' lead partner service model is an innovative approach.
- The strategic plan outlines the partnership's aims, visions and priorities for the next three years. The plan has been reviewed at its mid-point in August 2016.
- Key outcomes for the Board, which align with the Community Planning Partnership, have been agreed.
- Quarterly performance reports are presented to the Performance & Audit Committee; an annual performance report was published.

Outlook

- Whilst the Board's commitment to providing better preventative and community based care is encouraging, it is too early to judge its impact. The Board will need to demonstrate its evolving approach is making a positive impact on users and outcome measures
- The Board will need to operate in a period of austerity with reduced funding in real terms, increasing cost pressures and a growing demand for services. Developing and implementing workforce strategies which enable the redesign of health and care services to meet future needs will be challenging.

Introduction

1. In October 2015 the Accounts Commission approved the appointment of Audit Scotland's Audit Services Group as external auditors of North Ayrshire Integration Joint Board (the "Board"). Our audit appointment is for one year, covering the 2015/16 financial year. This is the first period for which the Board has prepared financial statements for the health and social care partnership.
2. This report is a summary of our findings arising from the 2015/16 audit. The report is divided into sections which reflect our public sector audit model.
3. The management of the Board is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
4. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
5. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility to prepare financial statements which give a true and fair view.
6. [Appendix I](#) lists the audit risks that we identified in the annual audit plan we issued in March 2016. It also summarises the assurances provided by management to demonstrate that risks are being addressed and the conclusions of our audit work. [Appendix II](#) lists the reports we issued to the Board during the year. A number of national reports have been issued by Audit Scotland during the course of the year. These reports, summarised at [Appendix III](#), include recommendations for improvements.
7. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers considered the issues and agreed to take steps to address them. The Board should ensure it has a mechanism in place to assess progress and monitor outcomes.
8. We have included in this 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.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit and issued an unqualified independent auditor’s report.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements were prepared on the going concern basis. • There is increased financial risk for the Board which had to set its 2016/17 budget in advance of NHS Ayrshire & Arran approving its budget. However we do not feel this or any other events or conditions cast significant doubt on the Board’s ability to continue as a going concern.
<p>Other information</p>	<ul style="list-style-type: none"> • We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of this information.

Submission of financial statements for audit

10. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards (IJBs) should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the Board are prepared in accordance with the 1973 Act and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
11. The IJB put arrangements in place to provide information to its partners for their group accounts, per an agreed timetable. This was particularly important for NHS Ayrshire and Arran which is required to submit audited accounts by 30 June. This included details of balances held at the year-end, the transactions in the year and other information including assurances needed for the governance statements.
12. We received the unaudited financial statements of the Board on 24 May 2016, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.

Overview of the scope of the audit of the financial statements

13. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Performance and Audit Committee on 9 June 2016.

14. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
15. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
16. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.
17. Our audit involved 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.

Materiality

18. 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 decisions of users of financial

statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of North Ayrshire Integration Joint Board we set our planning materiality for 2015/16 at £2.259 million (or 1% of gross expenditure). Performance materiality was calculated at £1.356 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £0.025 million (approximately 1% of planning materiality) for reporting errors. Our annual audit plan highlighted that we would report all misstatements greater than £0.025 million.
21. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels we reviewed our materiality levels, and adjusted our materiality according to actual unaudited gross expenditure. Planning materiality was adjusted to £2.338 million and performance materiality to £1.403 million.

Evaluation of misstatements

22. The audit identified some minor presentational items in the unaudited accounts which were discussed and agreed with management. None of these had an impact on the net income and expenditure or balance sheet reported to members in June 2016 when the unaudited accounts were presented.

Significant findings from the audit

23. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
24. There are no matters other than those set out elsewhere in this report that we want to bring to your attention.
25. Table 1 below details those issues or other audit judgements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.

26. The financial statements have been compiled in accordance with regulations and we have issued an unqualified independent auditor’s report. The annual accounts show the results of the IJB’s transactions, but do not reflect the way that services have been organised across Ayrshire lead service partners. However, the Management Commentary, and monitoring information provided to Board members reflects this. The impact of these changes is

discussed further in table 2. This limits the ability of readers of the accounts to link audited IJB cost information to other service performance measures published by the partnership. This will be increasingly the case across Scotland as IJBs change the way that services are delivered.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260
<p>1. Budgeting and Financial Sustainability</p> <p>The Board incurred an overspend of £2.109 million. A recovery plan was approved by the Board and by the partner bodies, with the overspend being funded by North Ayrshire Council. Periodic budget reporting to the Board throughout the year had predicted a lower overspend. The projected overspend increased from £1.355 million at period 10 to £2.109 million at the year end. The increase over the intervening period was due to additional costs within community care and independent living services that were not forecast at period 10. An action plan has been developed to improve financial management moving forward.</p> <p><i>Appendix IV – Action Plan No. 1</i></p>
<p>2. Set Aside Costs</p> <p>The accounts include £20.825 million set aside costs for hospital acute services. The budget and expenditure reported for the set aside is equal and based on the historic use of acute services in the area. The figures are provided by NHS Ayrshire & Arran. Partners agreed that this would be managed by NHS Ayrshire & Arran with no in year financial consequences on the partnership. The set aside is excluded from the financial monitoring information used by the IJB to monitor performance, see table 2.</p> <p><i>Resolution:</i> The income and expenditure account in the annual accounts correctly incorporate the set aside costs of £20.825 million. The set aside budget will be reviewed annually as part of the Strategic Plan and should reflect any redesign of services. No further action required.</p>

Future accounting and auditing developments

Audit appointment from 2016/17

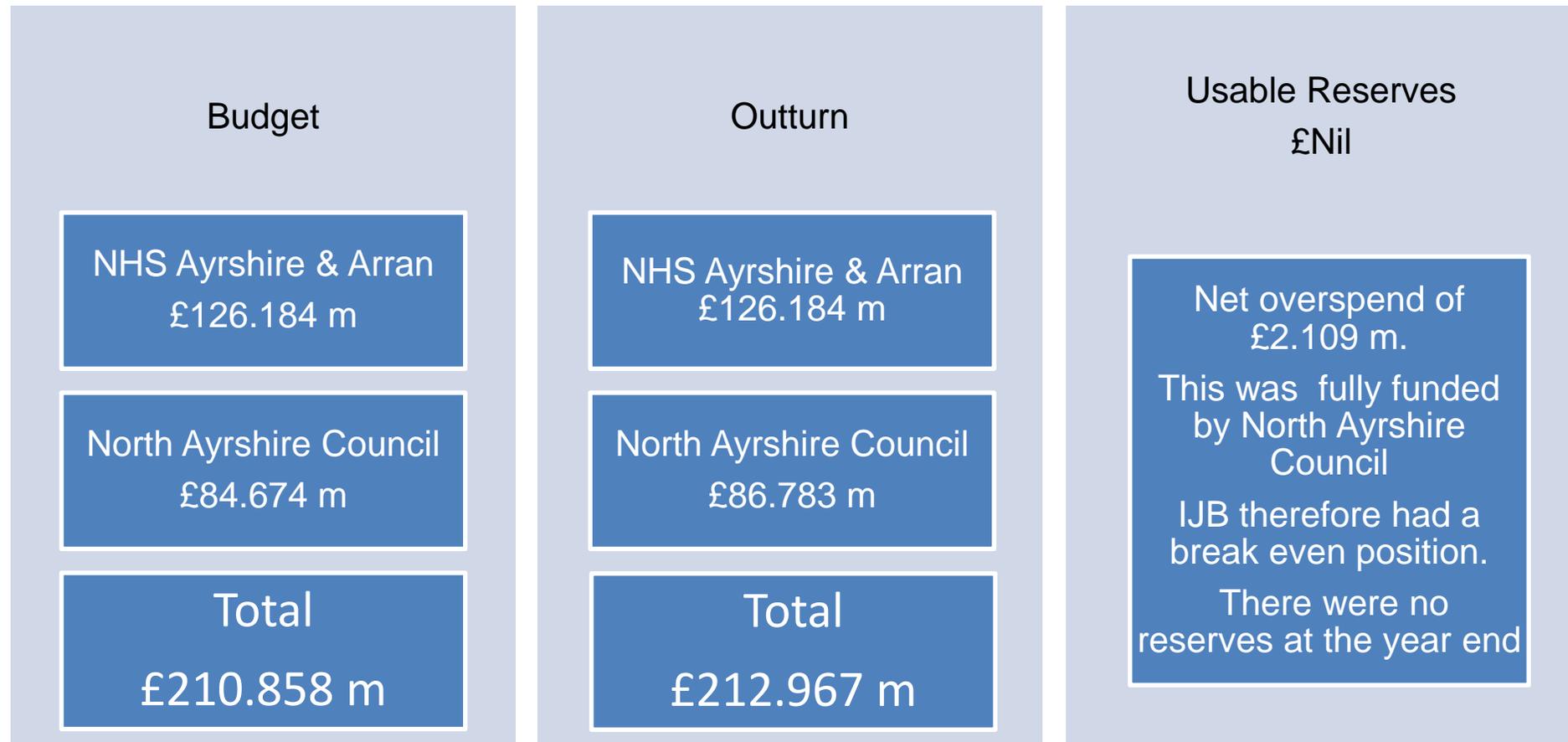
27. The Accounts Commission is responsible for the appointment of external auditors to integration joint boards. Paragraph 1 referred to Audit Scotland's one year appointment as the auditor of North Ayrshire Integration Joint Board in 2015/16. This was restricted to one year to reflect the final year of our five year appointment as auditors of NHS Ayrshire & Arran and North Ayrshire Council. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants.
28. The procurement process for the new round of audit appointments was completed in March 2016. From next year (2016/17) Deloitte LLP will be the appointed auditor for North Ayrshire Integration Joint Board.

Code of Audit Practice

29. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors.

30. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, Annual Audit Plans and other significant audit outputs will be put on the website for all audited bodies. This includes outputs for public sector bodies audited by firms. This is irrespective of whether the body meets in public or makes documents private.

Financial management and sustainability



The figures above represent the net costs of partnership services managed by North Ayrshire IJB. They exclude £0.041 million of net partnership income, for services delivered on behalf of East and South Ayrshire, not reflected in the IJB Statement of Income and Expenditure Account. They exclude the acute services set aside of £20.825 million discussed in Table 1.

Financial management

31. In this section we comment on the North Ayrshire Integration Joint Board financial performance and assess the Board's financial management arrangements.
32. The Board does not have any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer. All funding and expenditure for the Board is processed in the stakeholders' accounting records. Satisfactory arrangements are in place to identify this income and expenditure and report this financial information to the Board.
33. Lead partnership responsibilities are specified in the integration schemes for each of the three Ayrshire joint boards. These each specify that the lead board is responsible for the operational management and performance of those lead partnership services. Budget monitoring reports for the Board therefore include £29.811 million funding and expenditure for services which the Board lead on behalf of East and South Ayrshire IJBs. Conversely, budget monitoring reports exclude £29.770 million of funding and expenditure provided to the Board for services that are lead by either East or South Ayrshire IJBs. This nets to £0.041 million and is appropriately adjusted within the annual accounts.
34. The integration scheme between NHS Ayrshire & Arran and North Ayrshire Council sets out the amount to be paid by the parties to North Ayrshire Integration Joint Board. Delegated baseline budgets for 2015/16 were subject to due diligence and comparison to actual expenditure in previous years.
35. Legislation empowers the Board to hold reserves. The integration scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. It highlights that underspends in an element of the operational budget arising from specific management action may be retained by the Board to either fund additional in year capacity, or be carried forward to fund capacity in future years of the Strategic Plan. Alternatively, these can be returned to the partner bodies in the event of a windfall saving.
36. Where there is a forecast overspend the partner bodies must agree a recovery plan to balance the budget.

Financial performance 2015/16

37. The Board set a breakeven budget for 2015/16. This was based on expenditure of £204.818 million to deliver partnership services: with £119.289 million contributed from NHS Ayrshire & Arran (excluding set aside budget); and £84.478 million contributed by North Ayrshire Council. The budget was increased by £6.040 million during the year to £210.858 million; the NHS budget to £126.184 million and the Council budget to £84.674 million.
38. The main reasons for the increases to the budget include: additional funding was made available by the Scottish Government and NHS Ayrshire & Arran for prescribing (£2.494 million); from the Scottish Government for low pay in care homes (£0.291 million) and Kinship care (£0.558 million); and the inclusion of budgets for Keepwell, trainee health visitors and dementia nurses (£1.284 million).

39. The actual outturn for the year was an overspend of £2.109 million for the year as illustrated in Table 2:

Table 2: Summary of financial performance

Partnership budget objective summary	Budget (£m)	Actual (£m)	Variance (£m)
Level One – Core	123.652	124.421	0.769
Level Two – Non District General Hospitals	6.561	6.496	(0.065)
Level Three – Lead Partnership Services	46.678	46.577	(0.101)
Level Four – Children’s Services	26.669	28.346	1.677
Direct Overheads & Support Services	7.298	7.127	(0.171)
Total Partnership Expenditure	210.858	212.967	2.109
NHS Ayrshire & Arran Funding	126.184	126.184	(0.000)
North Ayrshire Council Funding	84.674	86.783	2.109
Total Income	210.858	212.967	2.109
Surplus/Deficit		0	0
Net lead partnership income		(-0.041)	
Set aside		20.825	
Gross income/expenditure		233.751	

Source: *Integration Joint Board Papers 16 June 2016*

40. The biggest overspend occurred in the children and families service. Expenditure on ‘children with disabilities’ increased by £1.089 million due to increased demand for services. Changes to legislation resulted in ‘kinship care’ fees increasing by £0.250 million. Additional investment has been targeted at this service for 2016/17.
41. Overspends also arose in the learning disabilities, physical disabilities, and prescribing services. These were partly offset by savings achieved in other services.
42. A recovery plan to address the overspend of £2.109 million was approved by the partners on 24 May 2016. This was funded by North Ayrshire Council. However, a previous recovery plan for £1.255 million had been approved in March 2016.
43. The increase over the intervening period was due to additional costs within community care and independent living services that were not forecast at period 10. In addition, there were issues identified with the financial management governance, including underlying management information, how this is used to project forecasts /outturns and clarity of the responsibilities of all budget holders within the Partnership. An action plan has been developed to improve financial management moving forward and to minimise the impact on future budgets.

Action Plan No 1

Financial management arrangements

44. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Chief Financial Officer has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the Board
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - Board members provide a good level of challenge and question budget holders on significant variances.
45. The previous Chief Financial Officer was in post throughout the accounting year, and was responsible for ensuring that appropriate financial services are available to the Board and the Chief Officer. A new Chief Financial Officer was appointed in April 2016.
46. We reviewed the standing financial instructions and standing orders, which were created on the formation of the IJB. These were approved by the Board and we consider these to be comprehensive.
47. Financial monitoring of the partnership budget is reported in an agreed format to the Board, and externally to NHS Ayrshire & Arran and North Ayrshire Council. This is reported, approximately 6 weeks in arrears, for every two months from July to March. An annual review for the year to March is provided alongside the annual accounts.
48. Projections of the year end position are included in the budget monitoring reports. These provide information on any adjustments to the baseline budgets, together with forecast outturn for the year and reasons for variances. Income and expenditure is analysed in accordance with the joint services provided by the partnership. Underspends and overspends are also attributed to the relevant partner body. The Board has responsibility for carrying out detailed scrutiny of the financial and operational performance and ensuring that prompt corrective actions are taken where appropriate.
49. We attended a number of Performance and Audit Committee meetings during the year. Members provide a good level of challenge and question the Chief Financial Officer on significant variances and service performance issues.

Conclusion on financial management

50. Despite the overspend, we have concluded that the Board has satisfactory financial management arrangements. The recovery plan action plan has recommended improvements to budget forecasting and monitoring processes. These will support the review and scrutiny of financial performance, the achievement of financial targets, and better awareness of any potential overspends.

Financial sustainability

51. Financial sustainability means that the Board has the capacity to meet its current and future plans. In assessing financial sustainability we are concerned with whether:
- spending is being balanced with income in the short term
 - long-term financial pressures are understood and planned for.

Financial planning

52. The Board allocates the resources it receives from the Health Board and Local Authority in line with the Strategic Plan. Due diligence was undertaken to consider the sufficiency of the 2015/16 budget provided for the Partnership.
53. Delays to the agreement of the Scottish Government's financial plans meant that the IJB budget for 2016/17 was not formally set at the beginning of the financial year. The council budget was set on 17 February 2016. This provided confirmation around the council element of the Partnership funding for 2016/17. The health board budget was formally approved by the Board on 11 August 2016. During the intervening period the Board set an interim working budget, based on assumed funding from the Health Board.
54. This meant that for the first few months of 2016/17 the Board were pursuing its strategic plan activities but were unable to carry out the planned due diligence on its 2016/17 budget. There was therefore uncertainty during this period regarding the extent to which the Board could develop and implement its strategic plan objectives.

In 2016/17 North Ayrshire Council will provide funding of £82.490 million. This is a reduction of £4.293 million from the 2015/16 final outturn. NHS Ayrshire & Arran has agreed funding of £130.996 million. Total funding is therefore £212.486 million excluding the set aside budget. The NHS Ayrshire & Arran contribution includes the Board's £7.280 million share of the increased investment by the Scottish Government to offset social care demand issues and cost pressures.

55. The 2016/17 budget incorporates the need to make savings: £2.871 million relating to 'health' services; and £4.000 million for 'council' services.

Conclusion on financial sustainability

56. While there were well documented reasons why the Board required to set an interim working budget for 2016/17, there are risks to service delivery when operating without an agreed budget.

Refer Action Plan no 2

57. Overall we conclude that the Partnership's financial position is sustainable but challenging currently and in the foreseeable future. Adequate financial planning arrangements are in place and we have also relied on the North Ayrshire Council and NHS Ayrshire and Arran's track record of delivering efficiency savings.

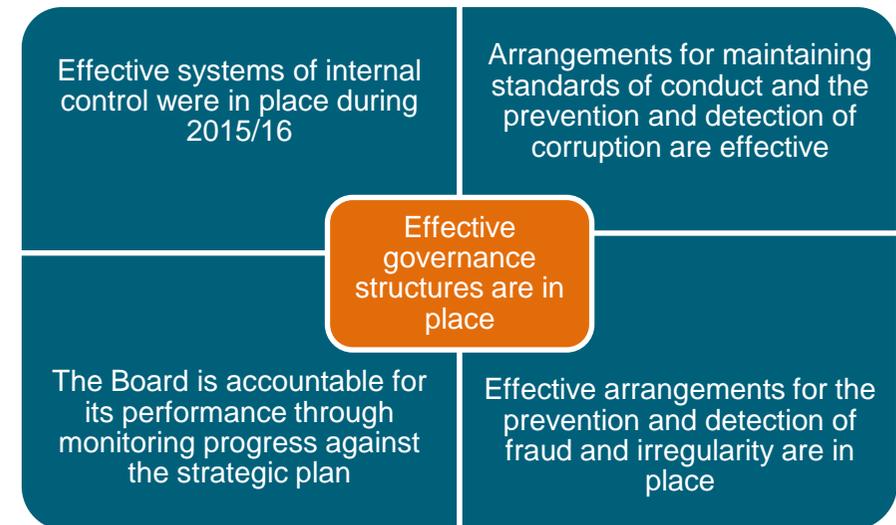
Outlook

58. NHS boards and councils have faced several years of financial constraints and this is expected to continue in the coming years.

The ageing population and increasing numbers of people with long term conditions and complex needs have already placed significant pressure on health and social care budgets. This puts further pressure on finances.

- 59. Strategic plans, while setting out the broad direction, will need to be clear regarding the Board’s priorities and the financing and staff that will be available over the longer term to match these priorities. It is important that they provide detail on the level of resources required in each key area and how they will shift resources towards preventative and community based care.
- 60. Achievement of the Board’s 2016/17 budget is dependent on a number of factors including making savings totalling £6.871 million.
- 61. A Change Programme Board comprising officers, IJB members, service users and service providers has been set up. This is overseeing the projects designed to deliver an effective shift in service delivery models and resources. The Board will need to demonstrate how it intends to achieve these efficiencies.

Governance and transparency



- 62. Good governance is vital to ensure that public bodies perform effectively. This can be a particular challenge in partnerships, with board members drawn from a wide range of backgrounds.
- 63. The integration scheme between North Ayrshire Council and NHS Ayrshire and Arran sets out the key governance arrangements. It also sets out the requirement to identify and collate a core set of indicators and measures which relate to integrated functions to enable the reporting of performance targets and improvement measures.

- 64. The Board are responsible for establishing arrangements for ensuring the proper conduct of the affairs of North Ayrshire Integration Joint Board and for monitoring the adequacy of these arrangements.
- 65. The Board comprises a wide range of service users and partners including four elected councillors nominated by North Ayrshire Council and four non executive directors nominated by NHS Ayrshire and Arran.
- 66. The Board is supported by a Chief Officer who provides overall strategic and operational advice to the Integration Joint Board, and is directly accountable to the Board for all of its responsibilities. The Chief Officer is also accountable to both the Chief Executive of North Ayrshire Council and the Chief Executive of NHS Ayrshire and Arran. The Chief Officer also provides regular reports to both the Council and the NHS Board.
- 67. The Board is responsible for the management and delivery of health and social care services in North Ayrshire, and is supported by a number of groups as illustrated at [Exhibit 1](#).
- 68. The Operational structure is divided into four core teams: Children, Families and Criminal Justice; Health and Community Care; Mental Health Services; and Planning and Performance. The integration scheme requires the Chief Officer to provide regular updates on the operational delivery of services which they lead to the other IJBs. We consider the Board’s financial management arrangements provide relevant information on lead partnership services to enable this.

- 69. The Board and each of the groups met on a regular basis throughout the year. We review Board minutes and Performance and Audit Committee minutes to ensure they are fulfilling their responsibilities. We also periodically attend meetings of the Performance and Audit Committee.

Exhibit 1: Committees and Groups at North Ayrshire Integration Joint Board



- 70. Standing Orders for the Integration Joint Board were approved when it was established in April 2015. These have been reviewed throughout the year to ensure they remain appropriate to the IJB.

Schemes of Delegation have been in place since April 2015 which clarify the functions delegated by North Ayrshire Council and NHS Ayrshire and Arran. These delegate operational management of services to the Chief Officer.

71. We concluded that the Board has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.

Internal control

72. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
73. All financial transactions of the Board are processed through the financial systems of North Ayrshire Council and NHS Ayrshire & Arran. They are subject to the same controls and scrutiny of the council and health board, including the work performed by internal audit.
74. Data controller principles for the IJB have been derived from the 'Ayrshare' principles that have been developed over the last 10 years. This is an information sharing agreement that has been in place between North Ayrshire Council, East Ayrshire Council, South Ayrshire Council and NHS Ayrshire & Arran covering child health, education and social work services.

75. The Board is keen to ensure only relevant information is shared and accessed by relevant people, and therefore keeping information secure. Until the structure of service provision has been developed further each party will remain responsible for its element of data security, protection, maintenance, training and technical support.
76. We sought and obtained assurances from the external auditor of the council and health board regarding the systems of internal control used to produce the transactions and balances recorded in the Board's annual accounts.
77. We also reviewed the Board's budget setting and financial management arrangements. Overall, we consider the systems of internal control to be effective.

Internal audit

78. Internal audit provides the Board and Chief Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. Internal audit services are provided to the Board by the respective internal auditors at both North Ayrshire Council and NHS Ayrshire and Arran. We carried out a review of the adequacy of the internal audit functions at each of the partner bodies. We concluded that internal audit at each partner body operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
79. To avoid duplication of effort we place reliance on the work of internal audit wherever possible.

80. The Board's Chief Internal Auditor concluded that reasonable assurance can be placed on the adequacy and effectiveness of the IJB's systems of governance, risk and internal control. This assertion was based on the Chief Internal Auditor's audit work carried out at North Ayrshire Council that related to the Board and by reviewing reports issued by the NHS Ayrshire and Arran internal auditor.
81. The internal audit service provider for NHS Ayrshire & Arran, PricewaterhouseCoopers (PwC), recently agreed to a sharing protocol for the reports they issue to NHS Ayrshire & Arran for the delivery of the internal audit plan. This meant that, in 2015/16, there was no mechanism in place for PwC to consult with the Performance & Audit Committee regarding the audit work they planned to carry out regarding the Board, nor was there a protocol for PwC reports to be presented to the Performance & Audit Committee.

Refer Action Plan no 3

82. As services become more integrated this will present a greater challenge to internal audit to produce audit plans that cover the accounting systems and governance arrangements for all the organisations.

Arrangements for the prevention and detection of fraud and other irregularities

83. Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by one of the partner bodies

internal audit sections. Since the Board does not directly employ staff, it has been agreed that investigations will be carried out by the internal audit service of the partner body where the fraud or irregularity originates. If this relates to NHS Ayrshire & Arran, there are arrangements in place to use the Counter Fraud Services.

84. We concluded that the Board had effective arrangements in place for fraud detection and prevention during 2015/16.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

85. The integration joint board requires that all members must comply with the Standards in Public Life - Code of Conduct for Members of Devolved Public Bodies. In addition, a register of members' interests is in place for Board Members and senior officers.
86. Based on our review of the evidence we concluded that the Board has effective arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Transparency

87. The Strategic Plan and locality planning arrangements enable wider partners to engage in, and support the delivery of the Strategic Plan. The Integration Scheme sets out the requirement for the consultation and engagement of key groups.

88. The Integration Joint Board's purpose and vision are outlined in its Strategic Plan. This shows what success would look like and sets out the Board's priorities for the current year and next two years. In doing so, it takes account of the priorities outlined in the 2020 Vision for Health and Social Care and the commitment within the North Ayrshire Single Outcome Agreement (2013-2017) to reduce local inequalities of outcome.
89. The Strategic Plan 2015-2018 incorporates an action plan. This sets out the actions that the partnership will take and provides a basis for measuring how well they are doing and how these are linked to the Board's priorities and the national outcomes. The action plan is monitored each quarter and was refreshed at the mid point of the plan in August 2016.
90. In addition to North Ayrshire Council and NHS Ayrshire & Arran representation, the Board includes a number of representatives from health and social care professionals, including GPs, employees, unpaid carers, service users, and the third sector.
91. Local residents should be able to hold the Board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.
92. Neither the Board nor the health & social care partnership have their own website. Information about services provided by the Board, or details of the meetings held by the Board can be accessed through the North Ayrshire Council website, where access is also provided for committee papers and minutes of meetings.
93. Members of the public can attend meetings of the Board. A significant amount of the Board's development work is discussed and considered through the Performance and Audit Committee, or through the groups listed at [Exhibit 1](#). Minutes and related papers for the Board are available on the council or health board websites, however, the other committee/group papers are not publicly available. The Board should consider enhancing transparency by publishing papers submitted to standing committees and groups. Where papers include confidential information these can be withdrawn or redacted as appropriate.
94. As part of the commitment to openness and transparency the Board should consider whether to set up its own web site or improve the dedicated area within the council's and health board's web sites. For example, presently the location of the minutes of the Board appear as though it were a committee of the council. Also, the composition of the Board can only be traced through reviewing Board minutes.
95. The Board demonstrates some areas of transparency. However the amount of information publicly available could be increased.

Outlook

96. North Ayrshire Integration Joint Board faces continuing challenges on a number of fronts including mounting financial challenges, meeting exacting performance targets, and delivering the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).

- 97. Embedding the IJB's governance arrangements will be an essential element in meeting its future challenges and maintaining accountability. All stakeholders including patients, clinicians, carers, the public, staff, partner bodies and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.
- 98. The structure of IJBs brings the potential for real or perceived conflicts of interest for board members and senior managers. For example, there is the risk that efficiency savings achieved by the Board may not be passed on by the partners who, themselves, are under pressure to deliver services with reduced financial resources. This could hamper the Board's ability to make decisions about the changes involved in redesigning services. Members of the public may also be unclear who is ultimately responsible for the quality of care. Going forward partners will need to keep governance arrangements under review to ensure they are effective, particularly when disagreements arise.

Best Value



- 99. The Public Bodies (Joint Working) (Scotland) Act 2014 set out a broad framework for creating integration authorities and gave councils and NHS boards a great deal of flexibility to enable them to develop integrated services that are best suited to local circumstances.
- 100. Integration authorities are required to contribute towards nine national health and wellbeing outcomes. These high level outcomes seek to measure the quality of health and social care services and their impact on, for example, allowing people to live independently and in good health, and reducing health inequalities. This signals an

important shift from measuring internal processes to assessing the impact on people using health and social care services.

- 101.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. IJBs need to establish effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account. There is also a need for regular reporting to partner organisations. This is particularly important as most members of North Ayrshire Council and NHS Ayrshire & Arran are not directly involved in the Board's work.

Arrangements for securing Best Value

- 102.** The Board was one of the first to be established in Scotland, and has demonstrated a very high level of commitment to the integration agenda throughout. The integration scheme specifies the very wide range of functions delegated by the council and the health board to the Board. These include all services previously carried out by the council's social services department plus a wide range of service previously carried out by the health board including primary care, all community hospitals, all mental health inpatients services, and palliative care. Good progress is being made.
- 103.** The integration scheme committed the Board to delivering the national outcomes for Health & Wellbeing, Children, and Criminal Justice. Partners identified a core set of indicators and targets and then agreed a framework for reporting progress against these. Locality planning arrangements are also being developed which are

multi disciplinary and multi sector and allow for different local needs to be taken into account in strategic planning.

- 104.** The Board is also committed to a number of high profile deliverables, including savings plans relating to both North Ayrshire Council and NHS Ayrshire & Arran, and national HEAT targets relating to psychological therapies, waiting times for Child & Adolescent Mental Health Services, etc.
- 105.** The three Ayrshire IJBs identified services that each of the three Ayrshire partnerships would lead. For example, the North Ayrshire Health & Social Care Partnership leads the delivery of Mental Health Services for all of Ayrshire. A key objective in respect of the allocation of lead partnership services across the Ayrshire partnerships was to fairly and effectively monitor, manage and share risks and resources.
- 106.** The Integration Scheme sets out the requirement for a Workforce Development Plan which will detail how the partnerships addresses workforce planning, learning and development and organisational development support for the workforce. This is currently being progressed by a pan Ayrshire working group.
- 107.** An Organisation Development Strategy was developed in June 2014 on a pan-Ayrshire basis. In April 2015, a North Ayrshire specific organisation development plan was included in the partnership's strategic plan. This was reviewed by internal audit in March 2016 and detailed that the 15 actions are in progress or have been completed. An updated Organisational Development plan is due to be submitted to the Board later in 2016.

- 108.** The 2015/16 budget incorporated approved efficiency savings of £2.817 million; £2.217 million for North Ayrshire Council and £0.600 million for NHS Ayrshire & Arran. Progress against these targets is reported for every two months from July to March to the Board as part of the financial management report and to the partner bodies. As reported to the IJB board in June 2016, savings have not been fully delivered in 2015/16.
- 109.** Overall, we concluded that the Board has arrangements in place for securing BV and continuous improvement.

Performance management

- 110.** The Strategic Plan identifies five strategic priorities that are linked to the Scottish Government's nine health and wellbeing outcomes, together with the six additional outcomes for children and community justice. These are:
- Tackling inequalities
 - Engaging communities
 - Bringing services together
 - Prevention and early intervention
 - Improving mental health and wellbeing
- 111.** Performance information and data relating to the indicators that support the strategic priorities is recorded on the Covalent system that is used by both the council and the health board. This consists of 62 indicators and 57 actions. Progress against each of the indicators and actions is reported quarterly to the Performance and Audit Committee.
- 112.** The performance management framework will continue to evolve as improved targets or data sources become available from sources such as the change programme.
- 113.** The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. Guidance highlights that the report should cover areas including: assessing performance in relation to the national health and wellbeing outcomes; financial performance and best value; reporting on localities; inspection of services; and a review of strategic commissioning plan (if applicable). While the publication of the performance report is not a statutory requirement until 2016/17, the Board produced this "national" report in 2015/16.
- 114.** The Annual Performance Report has been produced in a format consistent with the Scottish Government guidelines. It provides a high level summary of the main achievements of the Partnership and draws on and expands on the information provided in the quarterly reports. Testimonies from service users and actions undertaken have been included to show where progress and improvements have been made by the Partnership
- 115.** The details in the performance report are linked to the refresh of the strategic plan. The refreshed strategic plan was approved by the Board in August 2016 and was subject to significant consultation with staff, providers and service users. It is planned that that a

summary of the strategic plan will be delivered to all households in North Ayrshire.

116. We concluded that the Board has established a satisfactory performance management framework. This is based on the existing performance frameworks at both North Ayrshire Council and NHS Ayrshire & Arran.

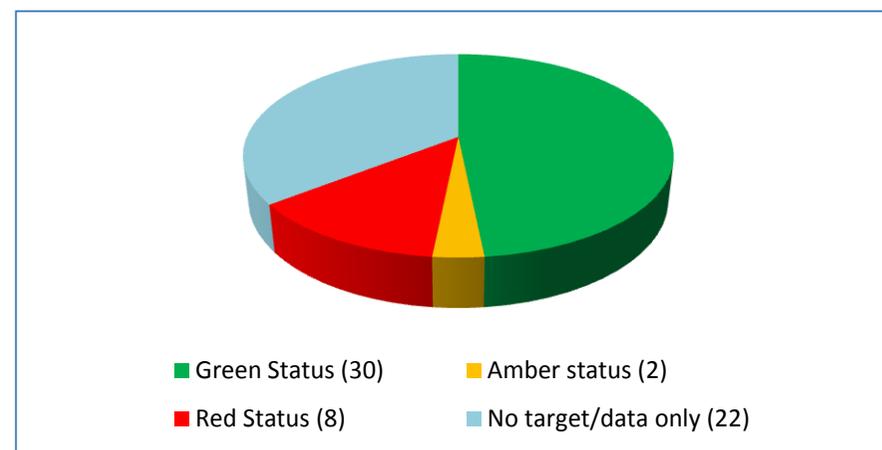
Overview of performance targets in 2015/16

117. The Board's performance against the 62 indicators encompasses the nine national outcomes plus the three national outcomes for both criminal justice and children's services. This is reported on a quarterly basis. Information on the indicators progress to date follows the Covalent convention of RAG status and are summarised in exhibit 2.

118. Of 62 strategic plan indicators, 30 were categorised as green, 2 amber, 8 red and 22 had either no target or data source to compare it to. These are categorised as:

- Green means on target
- Amber means slightly adrift
- Red means significantly adrift
- No target i.e. there is no target or data source and quality is still being verified.

Exhibit 2: Progress against strategic plan indicators 2015/16



119. The Partnership's Change Programme has focussed on four main areas going forward to improve the services for users:

- Build Teams around Children
- Develop Primary Care services in local communities
- Support the needs of Older People and Adults with Complex Care Needs
- Develop and deliver a new strategy for Mental Health and Learning Disability

This will require the creation of new targets and indicators to ensure performance is measured in these key areas.

National performance audit reports

120. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are outlined in [Appendix III](#) accompanying this report.
121. North Ayrshire Integration Joint Board has processes in place to ensure that all national performance reports and their impact on the Board are considered by the Board and Performance and Audit Committee, as appropriate. The Chief Internal Auditor prepares a covering report highlighting the key issues in national performance reports relevant to the Board.

Outlook

122. The Board faces continuing challenges on a number of fronts including mounting financial challenges, meeting exacting performance targets, and delivering the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision)..
123. The Board is responsible for co-ordinating health and social care services and commissioning NHS Ayrshire & Arran and North Ayrshire Council to deliver services in line with the strategic plan. Over time, there will be a shift in resources that this will lead to a change in how services are provided, with a greater emphasis on preventative services and allowing people to receive care and support in their home or local community.

124. The Board will need to continue to demonstrate and report whether this is making a positive impact on service users and improving outcomes. To help achieve this it is important that the Board has strategies covering the workforce, risk management, engagement with service users, and data sharing arrangements which help to enable delivery of the Board's strategic priorities.

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in the financial statements		
<p>Financial statements</p> <p>Financial statements are being prepared for the first time in 2015/16, and will require income, expenditure and year end balances between North Ayrshire Council, NHS Ayrshire & Arran, and the IJB to be agreed.</p> <p>Risk: There is a risk that year end procedures for agreeing year end balances are not fully embedded to enable North Ayrshire IJB to present its financial statements in accordance with the Code and in accordance with timescales to meet NHS reporting requirements.</p>	<ul style="list-style-type: none"> • We continued to engage with officers prior to the accounts being prepared to help ensure the relevant information was disclosed and timetable met. • We tested to ensure the governance statement is in accordance with the Code requirements. • We review technical guidance from IRAG and LASAAC. • Ensured accounting policies are appropriate and complete. • We obtain assurances from the auditors of North Ayrshire Council and NHS Ayrshire & Arran over the accuracy, completeness and appropriate allocation of the IJB ledger entries. 	<ul style="list-style-type: none"> • Financial statements were prepared in accordance with the Code and in accordance with timescales to meet NHS reporting requirements.

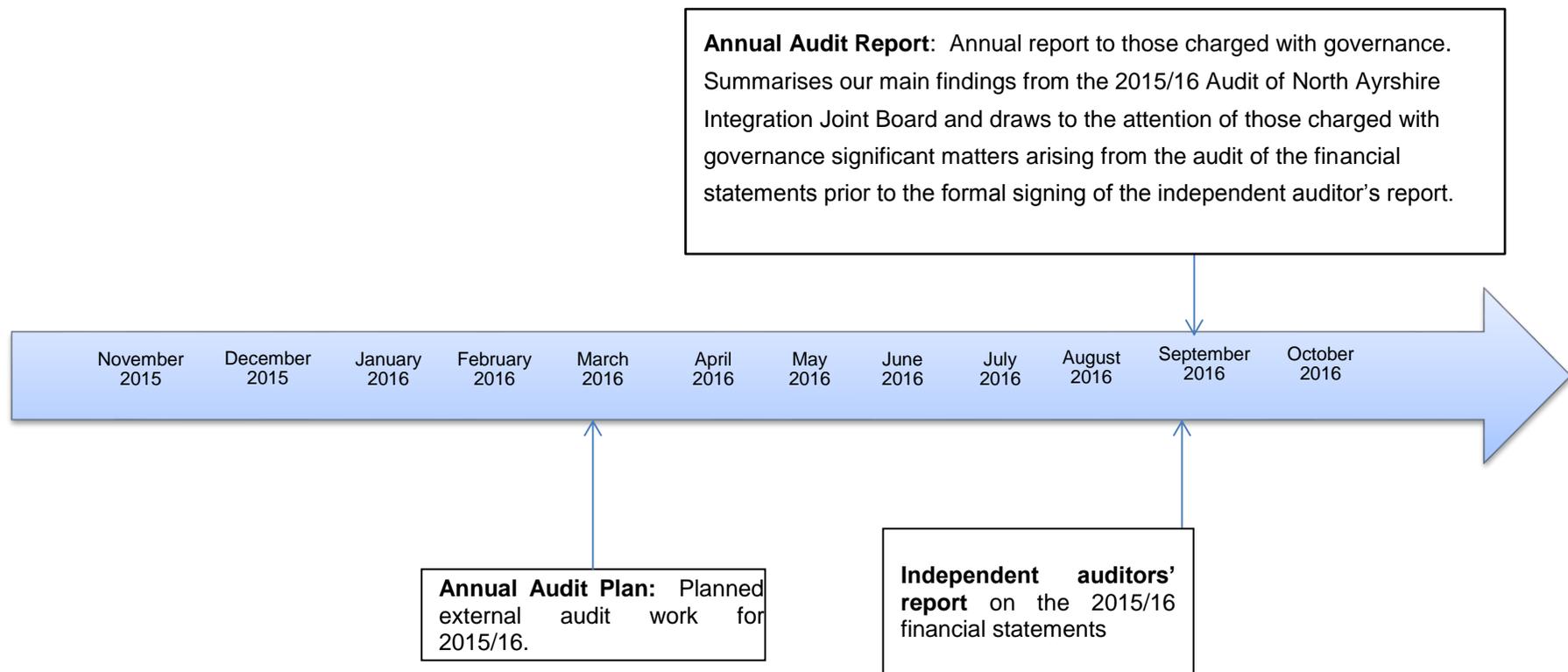
Audit Risk	Assurance procedure	Results and conclusions
<p>Governance statement and management assurances</p> <p>The preparation of the financial statements of the IJB relies on the provision of financial and non-financial information from the systems of the two partner bodies. The Chief Financial Officer of the IJB must obtain assurance; that the costs transferred to the accounts of the IJB are complete and accurate and were incurred on behalf of the IJB for services prescribed in the integration scheme.</p> <p>Risk: The Chief Financial officer does not have adequate assurance that information received from each party is accurate and complete.</p>	<ul style="list-style-type: none"> • We ensured the governance statement adequately reflects the position of IJB. • We ensured that financial reporting throughout the year is accurately reflected in the year end position. • We considered whether appropriate action is taken on issues raised in Internal Audit reports. • We obtained audit assurances from the auditor of the council and health board regarding the accuracy and allocation of IJB transactions and to ensure they are recorded in the correct financial year. 	<ul style="list-style-type: none"> • The governance statement reflects the position of the IJB. • No monetary adjustments were identified in the audit of the annual accounts. Therefore the year end position of the board has been accurately reflected. • Satisfactory consideration has been given to issues raised by Internal Audit. • Satisfactory written assurances were received from the external auditors of the council and health board regarding accuracy, allocation and cut-off of IJB transactions. • The financial statements accurately reflect the year end position of the IJB, but noted that the financial reporting throughout the year did not correctly forecast the year end overspend on council related services.

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. ISA 240 states that audit procedures should be responsive to risks related to management override of controls.</p> <p>Risk: Management could manipulate the position disclosed in the financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • We confirmed the external auditor of the council and health board has carried out testing of year end journal entries to confirm transactions are of the nature and type expected. • Confirmed the external auditor of the council and health board has carried out focussed testing of the regularity and cut-off assertions. • Review of any accounting estimates for bias if applicable. 	<ul style="list-style-type: none"> • Confirmations of testing by external auditors of the council and health board for journal entries, regularity and cut-off of income and expenditure was satisfactory. This was confirmed through written assurances. • No significant accounting estimates were relevant to the accounts.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Reserves Policy</p> <p>The reserves strategy has been developed and is scheduled for approval by the IJB.</p> <p>Risk: The IJB may not be able to hold any reserves until this has been approved, or it may be unclear how to account for under and overspends.</p>	<ul style="list-style-type: none"> • We ensured this was completed and approved. • We ensured the agreed reserves policy adequately outlines how the IJB is able to hold reserves in the event of future managed over or underspends. 	<ul style="list-style-type: none"> • The reserves policy was completed and approved by the Board on 10 March 2016. • From review of the reserves policy, it satisfactorily outlines how the IJB is able to hold reserves in the event of future managed over or underspends.

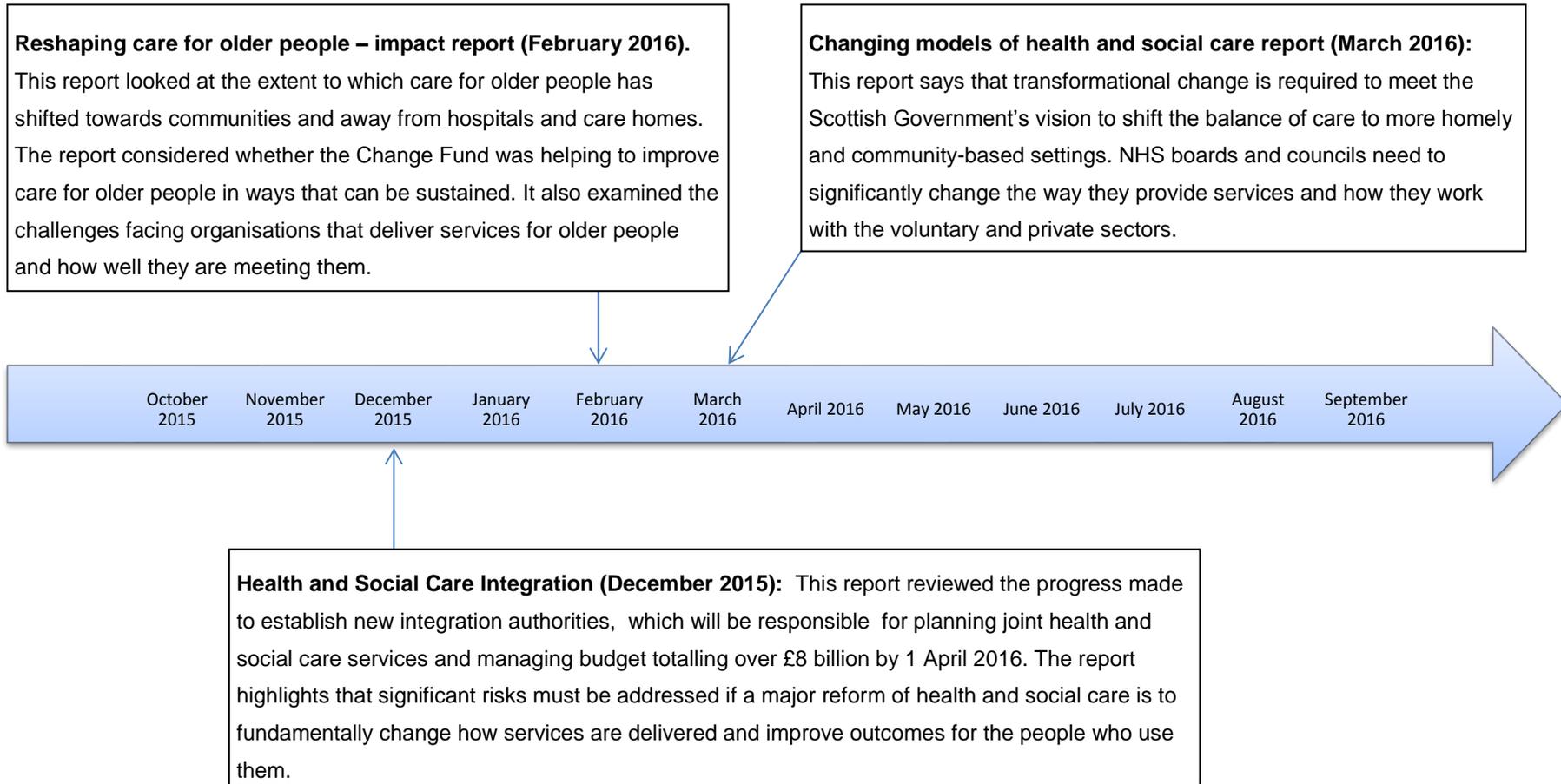
Audit Risk	Assurance procedure	Results and conclusions
<p>Financial Sustainability</p> <p>The IJB is forecasting an overspend in 2015/16 of £1.4 million. The IJB’s indicative three year budget requires efficiencies to be sought over this period to enable the IJB to break even.</p> <p>Risk: Strong financial management and budgetary control will be required by the IJB and between parties. Otherwise there is a risk the IJB will not meet the efficiencies or service improvements required to meet the challenges caused by reduced funding combined with increasing demand for services.</p>	<ul style="list-style-type: none"> • We ensured that the ongoing budget monitoring accurately reflects the position of the IJB. • Obtained evidence of recovery plan or remedial action being taken on areas of overspend. 	<ul style="list-style-type: none"> • Ongoing financial monitoring was consistently reported to the Board. Budget movements and variances from previous periods were explained, as were forecast year end positions. • The IJB overspent in year by £2.109 million. The council fully funded the overspend, as agreed by North Ayrshire Council Cabinet on 24 May. . • There was a significant increase in the year end overspend from that which had been predicted at the end of month 10. • A recovery plan was provided to the Board, council and health board; and an action plan was presented in June 2016. • This identified that there were some weaknesses in financial management which is an area for further improvement.

Audit Risk	Assurance procedure	Results and conclusions
<p>Annual Performance Report – The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end.</p> <p>Risk: The IJB may not be able to comply with this requirement and deadline, given that this is the first year of operation and external guidance regarding how this should be presented is not yet available.</p>	<ul style="list-style-type: none"> • We reviewed the quality of ongoing performance reporting to the IJB and PAC. • Considered progress towards issuing the annual performance report and whether this covers the information required by the, still to be issued, guidance. 	<ul style="list-style-type: none"> • Scottish Government guidance issued in late March 2016 has advised that the first required publication of the annual performance report is for 2016/17. • The Board chose to issue an annual performance Report for 2015/16 and it covers the areas required by guidelines. • Quarterly performance monitoring to the Performance and Audit Committee and provides sufficient details for members.
<p>Risk management</p> <p>The integration scheme requires that a risk management strategy for the IJB should be agreed and in place by 31 March 2016.</p> <p>Risk: Without a formal process of risk recognition and management action to assess and mitigate risk there is a danger that the board could suffer loss or harm on the crystallisation of specific risks.</p>	<ul style="list-style-type: none"> • Reviewed the final risk management strategy, ensured it adequately covers the risks faced by the IJB, and ensured it documents the proposed management action for mitigating these risks. 	<ul style="list-style-type: none"> • A pan- Ayrshire risk management strategy and risk register for the IJB is being developed and will be presented to a future Board meeting.

Appendix II: Summary of North Ayrshire Integration Joint Board local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1. 74251	43	<p>Issue: A recovery plan to finance the £2.109 million overspend was approved in May 2016. However, a previously agreed recovery plan for a forecast overspend of £1.255 million was approved in March 2015. The increase over the intervening period was due to additional costs within community care and independent living services that were not forecast at period 10.</p> <p>Recommendation: The action plan developed to improve financial management should be monitored to ensure that the improvement actions are delivered.</p>	The action plan is being monitored quarterly.	Chief Financial Officer. March 2017
2. 70461	56	<p>Issue: The Board operated during the first few months of 2016/17 without a fully approved budget.</p> <p>Recommendation: Due diligence should be carried out when the 2016/17 budget is approved, and assurance provided that this is consistent with the interim budget.</p>	A due diligence exercise is currently underway and will be presented to Strategic Planning and Operational Group (SPOG) and the IJB when the results of this exercise are complete.	Chief Financial Officer. September 2016

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3. 74338	81	<p>Issue: The protocol for sharing internal audit reports produced by the internal audit service provider for NHS Ayrshire & Arran, PricewaterhouseCoopers (PWC), has recently been agreed but is still untested. In 2015/16 there was no mechanism in place for PWC to consult with the Performance & Audit Committee regarding the audit work they plan to carry out that relates to the Board, nor was there a protocol for PWC reports to be presented to the Performance & Audit Committee.</p> <p>Recommendation: The recently approved protocol should ensure that all internal audit work that is relevant to the Board is considered by the Performance & Audit Committee.</p>	A protocol has been approved for the sharing of internal audit work and will ensure that all relevant work is considered by the Performance and Audit Committee.	Chief Internal Auditor. December 2016