



Perth & Kinross Integration Joint Board

2015/16 Annual Audit
Report for members of
Perth & Kinross
Integration Joint Board
and the Controller of Audit

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Stephen Boyle, Assistant Director, Audit Scotland is the engagement lead of Perth & Kinross Integration Joint Board for the year 2015/16.

This report has been prepared for the use of Perth & Kinross Integration Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

Audit of financial statements

- We have issued an unqualified independent auditor's report on the 2015/16 financial statements.
- The board did not comply with the statutory requirement to give public notice by the 17th June that its unaudited accounts were available for inspection. It subsequently gave the required notice on 28 July. It will need to improve these arrangements next year.
- The accounts presented for audit were not of a sufficient standard, with significant monetary and presentational adjustments required to the unaudited accounts.

Financial management & sustainability

- Overall, the board is in the process of implementing its financial management arrangements to ensure that its financial position is sustainable.
- The board set its 2016/17 budget in advance of confirmation of the settlement from NHS Tayside.
- The 2016/17 budget was agreed in March 2016 however the funding was considered insufficient to meet the board's requirements. The recovery plan agreed in July 2016, as part of the financial assurances update, identified savings however the funding remained insufficient. The board therefore invoked the risk sharing agreement whereby responsibility for meeting overspends lies with the partner delivering the service.
- Regular budgetary monitoring reports are required however as this is the first few months of the board being operational these have yet to be reported to the board.

Governance & transparency

- Overall the board have appropriate governance arrangements in place to provide a framework for effective organisational decision making. These arrangements continue to develop with the board being operational from 1 April 2016.

Best Value

- The board are committed to the integration agenda and have made good progress to date.
- The strategic plan outlines the board's aims, visions and priorities for the next three years.
- The board has approved a performance management framework as required by the Public Bodies (Joint Working) (Scotland) Act 2014.
- The board has yet to fully develop performance measures aligned to the strategic plan.

Outlook

- The board will continue to operate in a period of austerity with reduced funding in real terms, increasing cost pressures and a growing demand for services. All integration authorities need to continue to shift resources, including the workforce, towards a more preventative and community based approach.
- Developing and implementing workforce strategies which enable the redesign of health and care services to meet future needs will be challenging. Current difficulties in recruiting and retaining staff will heighten this challenge.
- It is important that the board can demonstrate that these changes, which may take several years to fully evolve, is making a positive impact on service users and improving outcomes.

Introduction

1. In October 2015 the Accounts Commission approved the appointment of Audit Scotland's Audit Services Group as external auditors of Perth & Kinross Integration Joint Board (the board). Our audit appointment is for one year, covering the 2015/16 financial year, the first accounting period for which the board is required to prepare financial statements.
2. This report is a summary of our findings arising from the 2015/16 audit of the board. 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 of board, 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.

10. From 2016/17 the auditor of the board will be KPMG. In accordance with agreed protocols and international standards on auditing we will be liaising with the incoming auditors as part of this transition.
11. A new Code of Audit Practice was published in May 2016 will apply to all audits from financial year 2016/17. This will focus the audit on four key areas:
 - financial sustainability
 - financial management
 - governance and transparency; and
 - value for money
12. In addition from 2016/17, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Audit of the 2015/16 financial statements

Submission of financial statements for audit

13. 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 should therefore be prepared in accordance with the 1973 Act and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
14. We received the unaudited financial statements of the board on 30 June 2016, in accordance with the agreed timetable. The Local Authority Accounts (Scotland) Regulations 2014 requires bodies covered by the regulations, including the board, to:
- give public notice by the 17th June of the right of interested persons to inspect and object to its accounts and is required to publish this notice on its website during the period of objection
 - to publish on its website a copy of the annual accounts submitted to the auditor, clearly identified as an unaudited version
 - require elected members to consider the unaudited accounts at a meeting no later than 31 August
15. We informed officers that they had not placed a public notice and were required to do so, before the financial statements were due to be considered for approval by the board at its August meeting. The public notice for the board was published on 28 July 2016 through Perth & Kinross Council's website. The board therefore did not comply with its statutory requirements.
- Appendix IV – Action plan no. 1**
16. The regulations also require elected members to consider the unaudited accounts at a meeting no later than 31 August. The board considered the unaudited accounts at its meeting on 1 July. It is considered best practice for elected members charged with governance to have formally considered the unaudited annual accounts prior to submitting them to the auditor, and making them available for public inspection. The board should consider moving to a position of best practice.
17. This represents the first year in which the board had to produce financial statements and as such we recognised this risk in our annual audit plan. The unaudited annual accounts were not of the required standard and required significant adjustments to ensure there were no material misstatements following the audit in 2015/16 including:
- recognising assets/liabilities in the balance sheet
 - identifying reserve balances and completing a movement on reserves statement
 - significant changes in both the income and expenditure recognised in the annual accounts

18. 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

19. 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 Perth & Kinross Integration Joint Board in March 2016.
20. 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.
21. 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.
22. 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.

23. 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.

Going concern

24. The financial statements were prepared on the going concern basis. Although the board approved its 2016/17 budget in advance of the health board's budget being agreed we do not feel this matter or any other events or conditions cast significant doubt on the board's ability to continue as a going concern, in light of the existence of the risk sharing agreement between the partners.

Materiality

25. 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).
26. 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.

27. We summarised our approach to materiality in our annual audit plan. Based on our knowledge and understanding of the board we set our planning materiality for 2015/16 at £1,100 (or 1% of gross expenditure). Performance materiality was calculated at £990, 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 £50 (approximately 5% of planning materiality) for reporting errors.
28. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculations remained appropriate.

Evaluation of misstatements

29. All misstatements identified during the audit which exceeded our misstatement threshold have been amended in the financial statements. The audit also identified some presentational adjustments which were discussed and agreed with management. The main adjustments are detailed in Table 1 below.

Significant findings from the audit

30. 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.
31. During the course of the audit we identified significant issues that, in our view, require to be communicated to you. 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.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260
<p>Liabilities</p> <p>No balance sheet or reserves were recognised in the unaudited accounts. The audit identified liabilities in respect of a holiday pay accrual of £2,221 and the audit fee of £5,000. Statutory guidance requires the creation of an Employee Statutory Adjustment Account (ESAA) to mitigate the impact of the holiday pay accrual. The accounts have been updated to reflect these liabilities appropriately resulting in:</p> <ul style="list-style-type: none"> • a deficit of £2,221 being recognised in the comprehensive income and expenditure statement • a balance sheet recognising a creditor of £7,221 and a debtor of £5,000 for the funding arrangements with partners for the payment of the audit fee • movement in reserves statement recognising the mitigation of the impact of the holiday pay accrual through the ESAA
<p>Recognition of expenditure</p> <p>Costs of £16,161 prior to the board’s establishment, on 3 October 2015, were incorrectly recognised in the unaudited accounts. These costs included the chief officer’s staff costs prior to the establishment of the board 3 October 2015.</p> <p>The expenditure and matching income from the board’s partners have now been excluded from the annual accounts and the remuneration report has been updated to reflect the amounts due by the board during 2015/16.</p>
<p>Services in kind</p> <p>LASAAC’s <i>Additional guidance on accounting for the integration of health and social care 2015/16</i> issued in September 2015 highlights that where there is clear evidence that the support or services have been provided free of charge by a partner that the costs would not feature in the board’s accounts. The guidance also suggests that the board could indicate in a note to the accounts the scale of support if material to the board.</p> <p>The integration scheme highlights that initially the partners will not charge the board for services provided for financial accounting support. These costs (services in kind) therefore have not featured in the board’s 2015/16 annual accounts but there has been no disclosure of the scale of the services provided. To provide transparency we recommended that additional disclosures are made.</p> <p style="text-align: right;">Appendix IV – Action Plan No. 2</p>

Other information

32. We also review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We consider whether these reports have been properly prepared, comply with extant guidance and are consistent with the financial statements. We report any material errors or omissions, any material inconsistencies with the financial statements or any otherwise misleading content.
33. We have nothing to report in respect of the other information published as part of the annual accounts.

Outlook

Health and Social Care Integration

34. The board became fully operational on 1 April 2016 when delegated services transferred from NHS Tayside and Perth & Kinross Council. Therefore, the financial results of integration joint board will require to be consolidated into the councils and health board's accounts in 2016/17.
35. The board will have to ensure that procedures are in place for it to provide financial and non-financial information by a mutually agreed date to allow the council and health board to meet their statutory reporting obligations. In addition, the integration board will need to consider what assurances they are required to provide to the council and health board to support disclosures in their annual governance statements.

Financial management and sustainability

Financial management and sustainability

36. In this section we comment on the board's financial performance and assess its financial management arrangements.
37. 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.
38. 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 relating to services managed by the board are incurred by the stakeholder parties and processed in their accounting records.

Financial performance 2015/16

39. The board was established in October 2015 and became operational on 1 April 2016. Therefore only corporate management cost (activities and costs that relate to the general running of the authority that provide the infrastructure that allows services to be

provided) were recognised in the board's financial statements during 2015/16.

40. The board did not agree a budget for 2015/16 and did not monitor the actual cost incurred (including the value of services in kind provided by its partners). The board hold no information on the value of the services of kind provided by its partners during 2015/16.

Appendix IV – Action plan no. 2

41. The integration scheme highlights that corporate management costs are shared by the partners therefore expenditure in the period was matched by income from its partners. The corporate management expenditure met by the partners in 2015/16 was £94,026.
42. The financial performance report considered by the board in March 2016 was in relation to the services to be delegated following the board becoming operational. The financial arrangements in relation to 2016/17 onwards are documented below.

Financial management arrangements and planning

43. 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.
44. The board confirmed the appointment of a chief finance officer in January 2016. The chief finance officer is responsible for ensuring that appropriate financial services are available to the board and the chief officer.
45. The board at its first meeting in November 2015 agreed its standing orders. A scheme of delegation and financial regulations were agreed by the board in March 2016. Internal audit concluded that the control standards expected to be seen at this stage of the development of the board were in place.
46. To ensure these governance documents remain fit for purpose they are subject to regular review where the board's arrangements develop. For instance changes to the standing orders were agreed as part of the establishment of an Audit & Performance Committee in July 2016.
47. The integration scheme sets out the agreed arrangements of the board in such areas as governance and local delivery arrangements and also outlines the functions which are to be delegated. The Strategic Commissioning Plan outlines the baseline budget for these delegated functions and these budgets were subject to due diligence and comparison to actual expenditure in previous years.
48. Internal audit's report *Financial Assurance* was considered by the board in March 2016 and concluded that in their opinion that:
- the due diligence processes undertaken on the initial sums for the integrated budget (i.e. exempting the Large Hospital Set Aside) comprehensively covered the requirements of the national financial assurance guidance. The information provided to the Perth & Kinross Integration Joint Board (IJB) at its November 2015 meeting and concluding in the January and February 2016 development events provided a full and detailed picture of the financial position of the budgets in scope. In addition, in our opinion, the due diligence and summary of risks reports met all the requirements of the national financial assurance guidance in relation to risk assessment. We would commend the approach taken in providing IJB members with an overall view of financial risks.*
49. No conclusion was drawn by internal audit on the large hospital set aside as the board had not yet received financial assurance information for this budget. The hosted services are also subject to agreement with a memorandum of understanding currently being developed across the Tayside area.
50. The board in March 2016 considered the financial forecast for 2015/16 of the services to be devolved by the council and NHS Tayside board. This highlighted the expectation of a £1.6 million overspend.

51. The integration scheme sets out the arrangements for addressing and financing any overspends or underspends. Underspends may be retained by the board to either fund additional in year capacity, or be carried forward to fund capacity in future years. Alternatively, these can be returned to the partner bodies. Where there is a forecast overspend the partner bodies must agree a recovery plan to balance the budget. Where this plan is insufficient in the first two years the overspend will be met by the partner with operational responsibility.
52. The council budget was set on 11 February 2016. This provided confirmation around the council element of the board funding for 2016/17. NHS Tayside's budget for 2016/17 was not formally set in time for the beginning of the financial year. The board's budget was therefore provisionally agreed in advance of confirmation of the settlement from NHS Tayside. During the intervening period the board in March 2016 considered a report on the proposed budget offers by Perth & Kinross Council and NHS Tayside totalling £191.2 million. Of this total £17.7 million was indicative as it related to the NHS large hospital set asides that had yet to be agreed.
53. This paper highlighted that the chief finance officer could not recommend to the board that the resources to be delegated by NHS Tayside were adequate. To allow the budget to be set it was agreed that officers in partnership with NHS Tayside would develop a financial recovery plan for these areas.
54. A financial assurance update in July 2016 presented the recovery plan and approved the savings and cost reduction plans identified to date. However officers highlighted that the budget to be devolved still could not be considered sufficient with £2 million savings in 2016/17 yet to be identified.
55. The board therefore agreed to invoke the risk sharing agreement outlined in the Integration Scheme, whereby responsibility for meeting overspends lies with the partner delivering the service (in this case NHS Tayside).
56. The integration scheme highlights that financial reports will be considered by the board on a timely basis, at least quarterly, and include as a minimum annual budget, full year outturn projection and commentary on material variances.
57. The financial assurances update presented in July 2016 gave commentary on elements of the annual budget and material variances, including assessment of the savings identified and gaps to be addressed. The savings identified were a work in progress and had some areas that required further information particularly on the impact and risk analysis (impact on workforce, customer, equality, outcomes) to allow members to assess the impact of any savings agreed.
- Appendix IV – Action plan no. 3**
58. It is too early to assess their effectiveness of the financial monitoring procedures with the first budget monitoring reports yet to be considered by members.

59. As auditors we attend a number of board meetings. Members challenged and question officers on the information provided in relation to the budget set and the impact of savings identified.

Conclusion on financial management and sustainability

60. Overall the board requires to continue to improve its financial management arrangements to:
- provide members with assurance that the budget set is adequate to allow services to be provided as part of the budget setting process prior to the commencement of the year
 - provide details of projected spend for the year against budget
 - provide details of the impact on services on the savings identified/required
61. 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.
62. The interim budget agreed is considered by the board to be insufficient in relation to the services to be provided. The recovery plan considered in July 2016 outlines that £2 million of savings in 2016/17 are yet to be identified. Whilst the partners agree to meet this potential shortfall the financial sustainability of the board is reliant on the recovery plans being implemented.

Outlook

63. 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.
64. 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.
65. The board has set a budget for 2016/17 and developed a financial recovery plan. The recovery plan is dependent on achieving efficiency savings each year to bridge the gap between available funding from current sources and the cost of services. The board will need to demonstrate the impact on services of these planned efficiencies.

Governance and transparency

66. 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.
67. *The Public Bodies (Joint Working) (Scotland) Act* received royal assent on 1 April 2014. This Act provided the framework for the integration of health and social care services in Scotland. An integration scheme has been agreed and the *Public Bodies (Joint Working) (Integration Joint Board Establishment) (Scotland) Amendment (No. 3) Order 2015* established Perth & Kinross Integration Joint Board on 3 October 2015.
68. The integration scheme between Perth & Kinross Council and NHS Tayside 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.
69. The board are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Perth & Kinross Integration Joint Board and for monitoring the adequacy of these arrangements.
70. The board comprises a wide range of service users and partners including four elected councillors nominated by the council and four Directors nominated by NHS Tayside. The board in July 2016 established an Audit & Performance Committee with specific delegated responsibility over: performance/best value; governance; audit; and standards.
71. The board is supported by a chief officer who provides overall strategic and operational advice to the board, and is directly accountable to the board for all of its responsibilities. The chief officer is also accountable to the chief executives of both the council and NHS Tayside. The chief officer also provides regular reports to both the council and the NHS board.
72. The board met on a regular basis throughout the period. A chief officer was appointed in September 2016. The board at its first meeting in November 2015 agreed its standing orders. A scheme of delegation and financial regulations were agreed by the board in March 2016. To ensure these governance documents remain fit for purpose they are subject to regular review where the board's arrangements develop. Internal audit concluded that the control standards expected to be seen at this stage of the development of the board were in place.
73. Overall the Board have appropriate governance arrangements in place to provide a framework for effective organisational decision making. These arrangements continue to develop with the board being operational from 1 April.

Internal control

74. 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.
75. Perth & Kinross Council and NHS Tayside are the partner bodies. All financial transactions of the board are processed through the financial systems of the partner bodies and are subject to the same controls and scrutiny of the council and health board, including the work performed by internal audit.
76. Internal audit provides the board with independent assurance on the board's overall risk management, internal control and corporate governance processes.
77. Internal audit's annual report on the board was considered in July 2016. The report highlighted that the board had adequate and effective internal controls in place proportionate to its responsibilities in 2015/16. The report also noted that as well as the ongoing planned developments of the control environment such as: introduction of codes of conduct (now approved in May 2016); development of the performance framework; and review of the management structure that the:

Accountability and responsibilities of the IJB in respect of all governance arrangements should be clarified and agreed by the

IJB and parties and flow through to risk management and assurance arrangements

78. We also reviewed the board's budget setting and financial monitoring arrangements and highlighted areas for improvement (refer *financial management and sustainability* section).
79. The arrangements continue to be developed and this ongoing process is recognised in that the corporate governance arrangements being highlighted as an area for action through the board's risk register agreed by the board in July 2016.
80. In 2016/17 as the board is operational, transactions will be more fluid between the board, the council and NHS Tayside. This provides a challenge to auditors since the annual audit plans of each partner are based on carrying out audit work which may be based on the accounting systems and governance arrangements that relate only to the partner that the auditor is appointed to.

Arrangements for the prevention and detection of fraud and other irregularities

81. The board's financial regulations approved in March 2016 note that the board, chief officer and chief finance officer have a duty to inform the council's chief internal auditor and the NHS Counter Fraud Service of any suspicion of fraud, irregularity or any other matter concerning the contravention of the Financial Regulations.

82. Since the board does not directly employ staff, investigations would be carried out by the internal audit service of the partner body where the fraud or irregularity originated.
83. We conclude that the arrangements implemented in 2015/16 board should be effective for fraud detection and prevention.

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

84. The board's standing orders requires that all members must comply with the Standards in Public Life - Code of Conduct for Members of Devolved Public Bodies and declare interests where appropriate. A standards officer was appointed in July 2016 and the register of members' interests is being currently being collated.
85. The board arrangements now established are appropriate with the arrangements currently in the process of being implementation.

Transparency

86. 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.
87. The council's website contains relevant information for the public including the integration scheme, strategic commissioning plan,

agendas and minutes of the board meetings. Board meetings are open to the public.

88. Elsewhere within this report we have highlighted specific issues in relation to transparency including:
- the registers of interest are currently being developed
 - the public notice of the availability of the accounts for inspection and objection was not undertaken in line with statutory requirements
 - the unaudited financial statements presentation was amended to provide prominence for the main financial statements
 - the budget monitoring reports should provide details of projected spend against budget
89. We have not encountered any evidence to suggest that information is routinely and unjustifiably withheld from public scrutiny.
90. As part of the commitment to openness and transparency the board should consider whether to set up its own web site. For example, presently the location of the minutes of the board appear as though it were a committee of the council.
91. Overall we concluded that the board is open and transparent although we believe that there are some areas where improvements to the current arrangements could be made.

Outlook

92. 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).
93. The design of boards brings the potential for real or perceived conflicts of interest for board members and senior managers. Partners need to be clear regarding how governance arrangements will work in practice, particularly when disagreements arise. This is because there are potentially confusing lines of accountability, which could hamper the board's ability to make decisions about the changes involved in redesigning services. The public may also be unclear who is ultimately responsible for the quality of care.
94. Embedding robust governance arrangements will be an essential element in meeting these 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.

Best value

95. 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. The integration scheme specifies the wide range of functions delegated by the council and NHS Tayside to the board.
96. 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.
97. The accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Integration authorities 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.

Arrangements for securing best value

98. The main purpose of integration is to improve the wellbeing of people who use health and social care services, particularly those whose needs are complex and involve support from health and

social care at the same time. The Integration Scheme is intended to achieve the National Health and Wellbeing Outcomes prescribed by the Scottish Ministers.

99. The Community Plan / Single Outcome Agreement 2013-23 (SOA) sets out the community planning partnership's commitment to public service reform. The strategic objectives in the SOA are:
 - giving every child the best start in life
 - developing educated, responsible and informed citizens
 - promoting a prosperous, inclusive and sustainable economy
 - supporting people to lead independent, healthy and active lives
 - creating a safe and sustainable place for future generations
100. The board in March 2016 approved a joint performance management framework to comply with guidance set out in the Public Bodies (Joint Working) (Scotland) Act 2014. However, performance measures have yet to be developed. As the board was not operational in 2015/16 there is no performance information relevant to that year.

Appendix IV – Action plan no. 4

101. An Audit & Performance Committee has been established with a view to monitoring the performance of the board towards achieving its policy objectives and priorities.
102. We concluded that the board has put in appropriate performance management arrangements as set out in the 2014 Act. However,

these arrangements are still at the early stages of development and a number of core performance measures have yet to be agreed.

National performance audit reports

103. 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.
104. The board has processes in place to ensure that all national performance reports and their impact are considered, as appropriate. The chief officer prepares a covering report highlighting the key issues in the national performance reports indicating the board's current position and any actions proposed.
105. Audit Scotland plans to re-visit health and social integration in future years to assess progress and impact.

Outlook

106. Pressures on health and social care services are likely to continue to increase for the foreseeable future. These increasing pressures have significant implications on the cost of providing health and social care services and challenges in ensuring that people receive the right care, at the right time, and in the right setting.
107. The board is responsible for co-ordinating health and social care services and commissioning NHS Tayside and Perth & Kinross Council to deliver services in line with the strategic plan. Over time,

the intention is 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.

108. 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

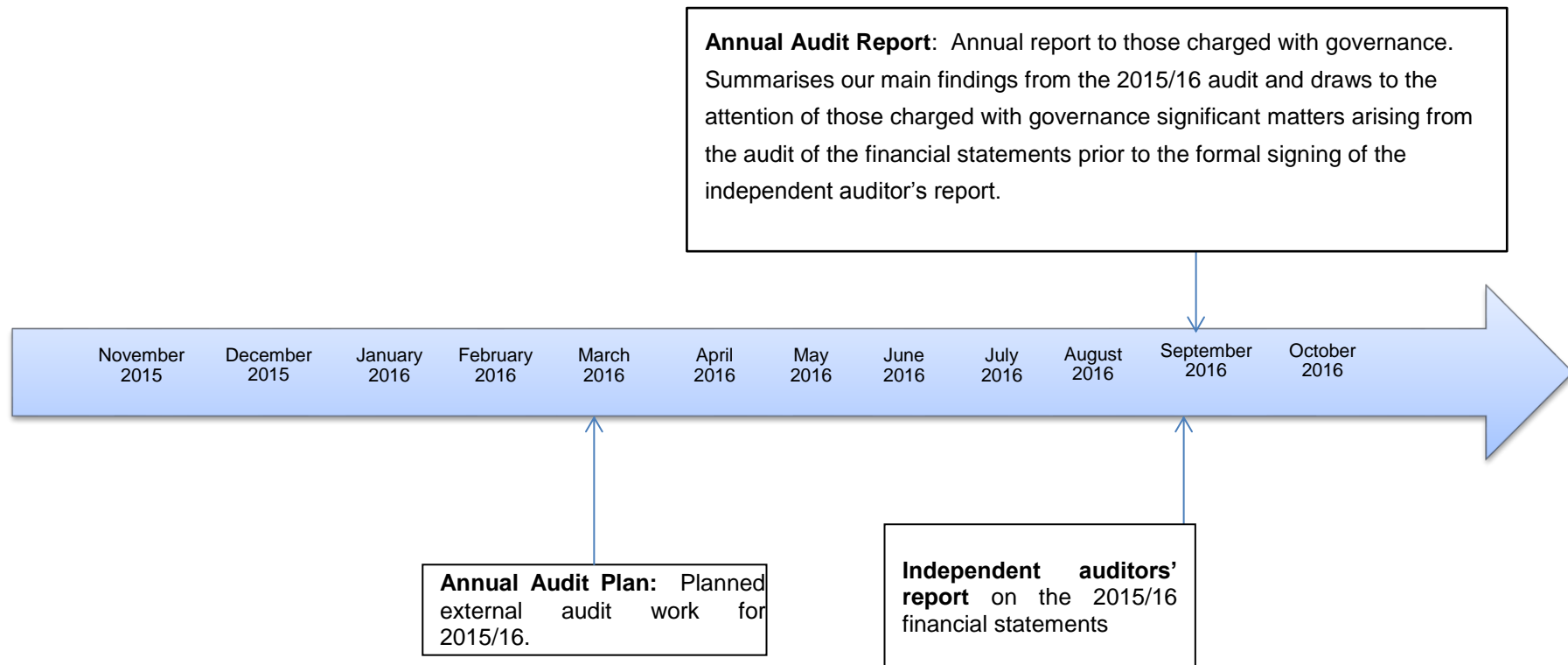
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in the financial statements		
<p>Financial Statements</p> <p>The financial statements for the board have to be prepared for the first time in 2015/16 for the period from October 2015. The financial statements are required to be prepared in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).</p> <p>The board is a new body and may not yet have the processes and procedures in place to provide the required financial information.</p> <p><i>Risk: Financial statements disclosures and supporting working papers will not be prepared to the required quality and by agreed timescales.</i></p>	<p>Review the board’s arrangements to ensure the proper conduct of its financial affairs.</p>	<p>Refer <i>Audit of the 2015/16 financial statements</i> section.</p> <p>The accounts presented for audit were not of a sufficient standard, with significant monetary and presentational adjustments required to the unaudited accounts.</p> <p>Appropriate adjustments to the accounts have been made to ensure compliance with the Code with an unqualified independent auditor’s report issued.</p>

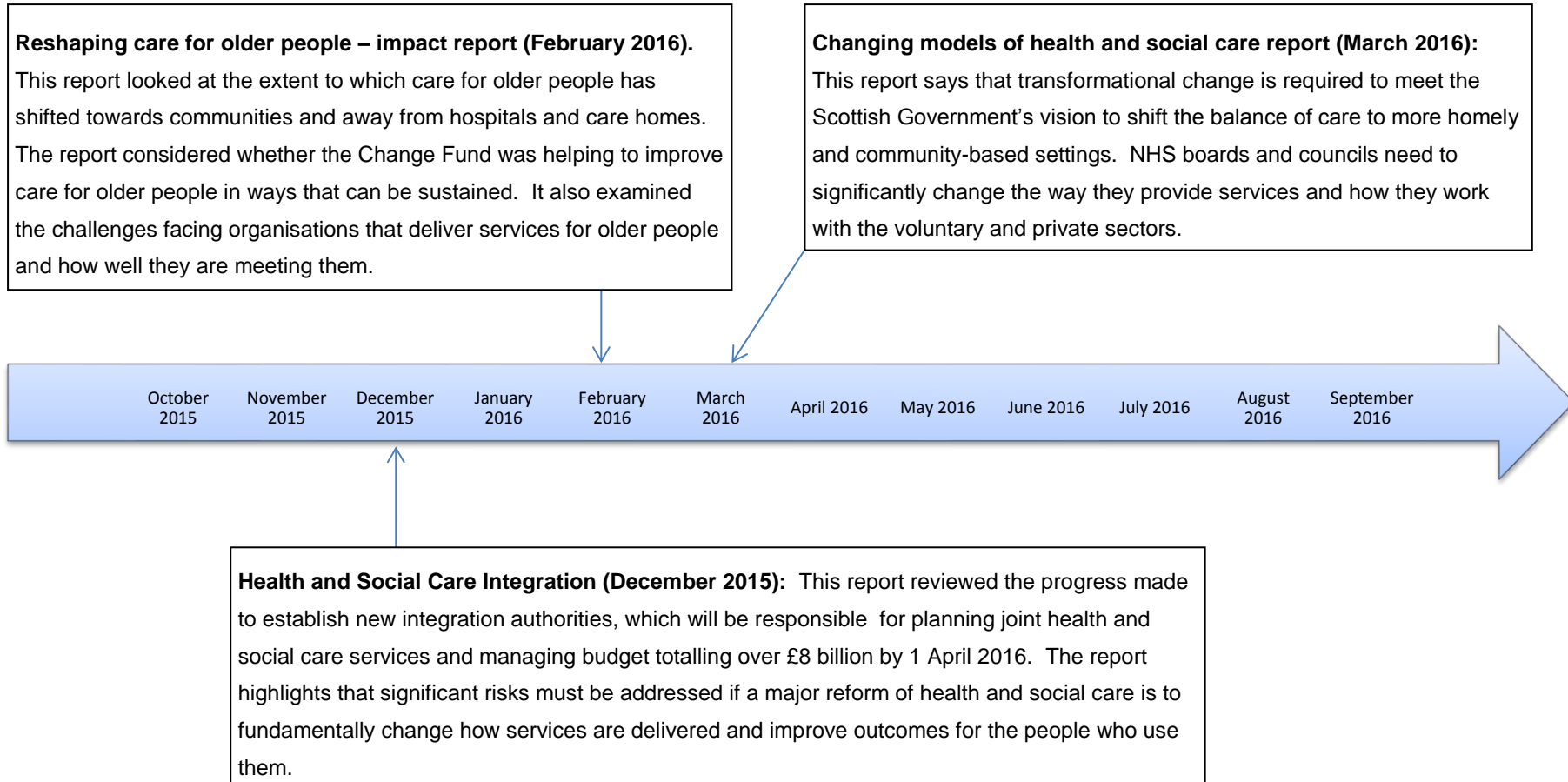
Audit Risk	Assurance procedure	Results and conclusions
<p>The Local Authority Accounts (Scotland) Regulations 2014</p> <p>The regulations stipulate that unaudited accounts are required submitted to external audit no later than 30 June and to be considered by the board by 31 August. The regulations also require that the audited accounts approved by the board by 30 September.</p> <p>Scottish Government guidance indicates that the board is also expected to provide financial and non-financial information so that NHS Tayside can meet its statutory reporting obligations.</p> <p><i>Risk: Regulation deadlines are not met or the required information is not supplied to NHS Tayside by the agreed date.</i></p>	<p>Confirm that the appropriate information is being submitted or considered/ approved timeously.</p>	<p>Refer <i>Audit of the 2015/16 financial statements</i> section.</p> <p>The unaudited accounts were submitted timeously and considered by the board on 1 July 2016.</p> <p>The audited accounts were considered for approval on 26 August 2016.</p> <p>The board did not comply with the statutory requirement to give public notice by the 17th June that its unaudited accounts were available for inspection. It subsequently gave the required notice on 28 July. It will need to improve these arrangements next year.</p> <p style="text-align: right;">Appendix IV – Action plan no. 1</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor’s wider responsibility under the Code of Audit Practice		
<p>Financial, governance and performance framework</p> <p>The Perth & Kinross Integration Joint Board was established in October 2015. The initial meeting of the board was in November 2015 where the overarching governance arrangements were established (including membership and standing orders). The Integration Scheme commits the board to developing a governance and performance framework covering a number of key areas.</p> <p>A budget for the board has yet to be agreed as part of Strategic Plan.</p> <p><i>Risk: Governance and performance arrangements are not fit for purpose.</i></p>	<p>Monitor the implementation of the board’s financial, governance and performance framework and inclusion in the annual audit report as appropriate.</p>	<p>Refer <i>Financial management and sustainability</i> section.</p> <p>Refer <i>Governance and transparency</i> section.</p> <p>Refer <i>Best value</i> section</p> <p>Overall the board have appropriate governance and performance arrangements in place to provide a framework for effective organisational decision making. Many of these arrangements are at an early stage of implementation and continue to develop with the board only being operational from 1 April 2016. For example the board has yet to fully develop performance measures aligned to the strategic plan.</p> <p>The 2016/17 budget was agreed in March 2016 however the funding was considered insufficient to meet the board’s requirements. The recovery plan agreed in July 2016, as part of the financial assurances update, identified savings however the funding remained insufficient. The board therefore invoked the risk sharing agreement whereby responsibility for meeting overspends lies with the partner delivering the service.</p> <p style="text-align: right;">Appendix IV – Action plan nos. 2, 3 and 4</p>

Appendix II: Local audit reports



Appendix III: Audit Scotland national reports



Appendix IV: Action plan

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	15	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the board to publish on its website:</p> <ul style="list-style-type: none"> • a copy of the annual accounts submitted to the auditor, clearly identified as an unaudited version • a public notice of the right of interested persons to inspect and object to its accounts • the audited annual accounts by 31 October • the annual audit report by 31 December. <p>The public notice was not completed within statutory deadlines and was only published through Perth & Kinross Council's website on 28 July 2016.</p> <p>Risk</p> <p><i>The board did not comply with the 2014 Regulations.</i></p> <p>Recommendation</p> <p>The board should ensure compliance with the publication requirements of the 2014 regulations and ensure its website is updated timeously with the required information.</p>	Agreed	Chief Finance Officer March 2017

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	31, 40	<p>The board did not agree a budget for 2015/16 and did not monitor the actual cost incurred (including the value of services in kind provided by its partners).</p> <p>The budgets for 2016/17 was agreed in March 2016 however some elements remain to be agreed. The financial assurances report was considered by the board in July giving an update on the budget setting process however the first budget monitoring reports for 2016/17 have yet to be considered.</p> <p>Risk</p> <p><i>The board's finances are not transparent.</i></p> <p>Recommendations</p> <p>The budget should be established and agreed prior to the commencement of the year and monitored regularly throughout the year.</p> <p>To provide transparency and allow members to be aware of the full cost of the service the board should establish the cost of services in kind provided by partners.</p>	<p>The Chief Finance Officer will work collaboratively with NHS Tayside and Perth & Kinross Council to align budget setting timetable to support delivery of three year budget by 31 March each year.</p> <p>The Chief Finance Officer will work collaboratively with NHS Tayside and Perth & Kinross Council to establish a robust basis on which the cost of Corporate Support Services can be valued.</p>	<p>Chief Finance Officer</p> <p>March 2017</p>

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	57	<p>The budget agreed in March 2016 highlighted the need to develop a financial recovery plan. The financial recovery plan was agreed in July 2016 however this highlighted that the funding was still considered by officers to be insufficient to meet the board's requirements. The board has therefore invoked the risk sharing agreement whereby responsibility for meeting overspends lies with the partner delivering the service in the first two years.</p> <p>Some of the savings plans (transformation programmes) identified in the financial assurance update still had to detail the potential impact on services.</p> <p>Risk</p> <p><i>The board is unable to fund the services.</i></p> <p>Recommendation</p> <p>The board should continue to develop its recovery plan to address the funding gaps identified.</p>	<p>Agreed</p> <p>All possible efforts continue to be made to identify further saving opportunities and reduced supplementary staffing expenditure. Progress will be reported to the IJB at each meeting.</p>	<p>Chief Finance Officer</p> <p>On-going</p>

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	100	<p>The board has approved a performance management framework to comply with guidance set out in the Public Bodies (Joint Working) (Scotland) Act 2014. However, performance measures have yet to be developed.</p> <p>Risk</p> <p><i>The board cannot effectively monitor the delivery of its strategic objectives.</i></p> <p>Recommendation</p> <p>The board should develop and agree key performance measures to be used in monitoring performance against its strategic objectives.</p>	<p>Agreed</p> <p>Work is on-going to agree key performance measures in the first instance they have focused on Capacity and Flow, however a wider framework of key performance measures will be developed for agreement by the board.</p>	<p>Chief Officer</p> <p>November 2016</p>