



# Aberdeen City Integration Joint Board

Annual Audit Report to the Members of Aberdeen City Integration Joint Board and  
the Controller of Audit

For the year ended 31 March 2017

11 September 2017

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## **About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Aberdeen City Integration Joint Board ("the IJB") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

## **Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the IJB, telephone 0131 527 6673, email: [andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to [alex.sanderson@kpmg.co.uk](mailto:alex.sanderson@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.



# Executive summary

## Key messages

### Audit conclusions

We have issued an unqualified audit opinion on the annual accounts of Aberdeen City Integration Joint Board ("the IJB"), following their approval by the Board.

We have concluded satisfactorily in respect of the significant risk and each of the audit focus areas identified in our audit strategy document.

The annual accounts, statement of responsibilities, governance statement and remuneration report were received at the start of the audit fieldwork and supporting documentation was provided to us.

We have no matters to highlight in respect of: adjusted or unadjusted audit differences or independence.

### Financial position

The IJB finished 2016-17 with a £10.4 million surplus due to additional Scottish Government funding, a significant element of which has been committed to be used on integration and change projects in 2017-18. The mainstream budget outturn was impacted by overspends in the primary care prescribing budget.

The 2017-18 budget was agreed by the Board on 7 March 2017. A balanced budget is projected; achieved by using integration and change funds to close deficits in the budget.

### Financial management and financial sustainability

The IJB spent £305.4 million on delivering health and social care services for the residents of Aberdeen.

We consider that the IJB has effective financial management arrangements, but we note that the financial landscape is challenging. Quarterly budgetary control reports are provided to the Board and the audit and performance systems committee, which enables overspends or underspends to be identified on a timely basis and actions taken to mitigate where possible.

### Governance and transparency

The IJB has strong governance arrangements, with its commitment to effective scrutiny demonstrated through a programme of Board training sessions.

The IJB operates in a transparent manner, with meetings of the Board and the audit and performance systems committee being taken in public.

# Introduction

## Scope and responsibilities

### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Aberdeen City Integration Joint Board (“the IJB”) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from the audit. It is addressed to both those charged with governance at the IJB and the Controller of Audit. The scope and nature of our audit were set out in our audit strategy document which was presented to the audit and performance systems committee at the outset of our audit.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the annual accounts but also consideration of areas such as financial performance and corporate governance.

### Accountable officer responsibilities

The Code sets out the IJB’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix two sets out how we have met each of the responsibilities set out in the Code.

### Scope

An audit of the annual accounts is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of annual accounts to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit and performance systems committee, discharges the requirements of ISA 260.

# Financial position

## Overview

The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The annual accounts of the IJB 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 Accounting Code).

The Board is responsible for the strategic planning and delivery of health and adult social care services in Aberdeen, the third largest city in Scotland, with a population of around 230,000. In the Scottish Index of Multiple Deprivation rankings the city has eight areas recognised as deprived, out of a total of 37,

The Board is responsible for services as set out in the Integration Scheme, which includes 'hosted' services provided by the IJB on behalf of the other integration joint boards in Aberdeen: Aberdeenshire; and Moray.

## IJB financial management overview

The budget setting process for the IJB required Aberdeen City Council and NHS Grampian to agree the payments to be made in advance of the start of the financial year. Going forward the IJB will present a budget, based on the strategic plan, to the partners for consideration as part of each partner's annual budget setting process. Payments to be made to the IJB will require to be formally advised by the 28 February each year in line with the Integration Scheme. Budgets are agreed for one financial year at a time.

Delegated baseline budgets for 2016-17 were subject to due diligence, carried out by internal audit, and comparison to actual expenditure in previous years.

The Board does not own fixed assets, nor does it directly incur expenditure or employ staff (other than the chief officer and the chief finance officer). Delivery of services is delegated to the partner organisations and the cost initially recorded in their financial records. The cost of services commissioned are then provided to the IJB for recognition in the IJB's annual accounts together with the funding contributions.

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 overspends or underspends. It highlights that underspends in an element of the operational budget may be retained by the IJB to either fund additional in year capacity, or be carried forward to fund capacity in future years of the strategic plan. Alternatively, these may be returned to the partner bodies.

Where there is a forecast overspend, the Chief Officer is expected to agree corrective action with the Board to bring the forecast back in line with budget. If the corrective action does not resolve the overspend the partner bodies must agree a recovery plan to balance the budget. The Integration Scheme sets out that any overspend is in excess of uncommitted reserves held by the IJB which arises in 2016-17 (the first full financial year of the IJB) shall be met by the partner with operational responsibility for the service. In future years agreement between the partners will determine whether any overspends are met by one or both of the parties and whether this would be recoverable against future baseline payments.



# Financial position (continued)

## 2016-17 Financial position

A surplus of £10.4 million is reported in the comprehensive income and expenditure statement ("CIES"), which resulted in £10.4 million net assets on the balance sheet as at 31 March 2017.

## Comprehensive income and expenditure statement

The IJB set a breakeven budget for 2016-17. This was based on expenditure of £311.1 million to deliver partnership services: with £222.6 million contributed from NHS Grampian; and £88.5 million contributed by Aberdeen City Council. Spend against budget was reported quarterly to the Board and audit and performance systems committee.

A surplus of £10.4 million was reported due to the timing of integration and change funding provided by the Scottish Government which was unspent at the year end. In line with the reserves strategy this amount is held on the balance sheet as a reserve.

Excluding integration and change funds, a deficit of £1.1 million was reported as shown in the table opposite. This is made up of the following key under and overspends:

- Primary care prescribing: overspend £0.8 million. This was largely anticipated throughout the year and is a result of an increase in both volume and costs of drugs prescribed. The board issued a directive to NHS Grampian to attempt to reduce the level of overspend. The forecast overspend as at 31 December 2016 was £1.2 million.
- Community health services: overspend £0.2 million. This is made up of unachieved budget reductions (£0.8 million) offset by underspends on staff costs (£0.4 million) and property costs (£0.1 million).
- Hosted services: overspend £0.3 million. The main reasons for the overspend is unachieved efficiency targets in the Police Forensic Service and an overspend on medical locum costs in the intermediate care budget.

(continued....)

Expenditure	2016-17 Budget (£000)	2016-17 Actual (£000)
Community health services	31,402	31,648
Aberdeen City share of hosted health services	20,868	21,209
Learning disabilities	29,101	29,267
Mental health and addictions	18,312	18,638*
Older people and physical and sensory disabilities	70,753	70,455*
Central living wage/inflation provisions`	(330)	(339)*
Criminal justice	(91)	(212)
Housing	2,163	2,200
Primary care prescribing	39,165	40,006
Primary care	37,306	36,846
Out of area treatments	1,222	1,219
<b>Total mainstream</b>	<b>249,871</b>	<b>250,937</b>
Integration and change fund expenditure	14,444	2,961*
<b>Total IJB</b>	<b>264,315</b>	<b>253,898</b>
<b>Variance at 31 March 2017</b>		<b>10,417</b>

Source: Finance Update as at 31 March 2017

\*These figures were based on an estimate transfer for the level of spend on Integration and Change Fund activities for adult social care. This estimate was finalised in time for publication on the unaudited annual accounts and the figures changed accordingly.

# Financial position (continued)

- Mental health and addictions: overspend £0.3 million. This variance is due to increased medical locum costs from difficulties in recruiting two consultant vacancies and one specialist doctor vacancy.
- Learning disabilities: overspend £0.2 million. This is due to under recovery of client contributions and an overspend in commissioned services, offset by smaller underspends on staff costs.
- Older people and physical and sensory disabilities: underspend £0.3 million). This is mainly as a result of lower than anticipated spend on needs-led commissioned budget.

Overall the services where operational responsibility lies with Aberdeen City Council were underspent by £0.1 million and the services where operational responsibility lies with NHS Grampian overspent by £1.2 million. The Board agreed that the NHS Grampian underspend should be funded from the integration and transformation fund on a one-off basis in 2016-17.

The integration and change fund is provided by the Scottish Government to be used to transform services, support integration and to reduce delayed discharges. An underspend occurred in 2016-17 due to the timing of individual transformation projects. The IJB is working to ensure that projects taken forward will deliver the required benefits. For future projects the IJB has identified the following key priorities which it will seek to deliver in 2017-18:

- develop business case for acute care at home;
- establish link workers in city;
- develop locality shadow operational budgets;
- continue developing the carers strategy;
- develop a commissioning strategy and more forward market facilitation; and
- testing the Buurtzorg nursing model: a patient centred model which empowers nurses to deliver the care that patients need.

## Balance sheet

As the IJB does not own fixed assets, or hold bank accounts, the balance sheet is made up solely of amounts owing to and from the partner organisations and the resulting reserves.

The debtors balance at year end arose from the underspend on integration and change funds, with £5.6 million owed by NHS Grampian and £4.8 million by Aberdeen City Council.

The IJB's reserves policy was agreed by the Board and allowed the underspend to be carried forward as usable reserves in service of delivering its transformation programme.

Balance sheet	2016-17 (£000)	2015-16 (£000)
Short term debtors	10,417	5
Short term creditors	-	(5)
<b>Net assets</b>	<b>10,417</b>	<b>-</b>
Useable reserves	(10,417)	-
<b>Total reserves</b>	<b>(10,417)</b>	<b>-</b>

Source: Unaudited annual accounts for year ended 31 March 2017

From total reserves of £10.4 million the IJB has earmarked £2.5 million to a risk fund and £0.5 million for replacement of essential equipment. The risk fund equates to around 1% of budgeted mainstream expenditure for 2017-18 and is intended to support the health and social care services provision and protect against any budget pressures during the year.

We provide further narrative on financial sustainability and financial management on pages 15 to 17.

# Annual accounts and accounting

## Audit conclusions

### Audit opinion

Following approval of the annual accounts by the audit and performance systems committee we issued an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2017, and of the surplus for the year then ended.

There are no matters identified on which we are required to report by exception.

### Financial reporting framework, legislation and other reporting requirements

The IJB is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the Code and relevant legislation.

### Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

### Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

### Audit misstatements

There were no audit misstatements identified during the audit.

### Written representations

Our management representation letter contains our standard representations.



# Annual accounts and accounting (continued)

## Audit conclusions (continued)

### Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the annual accounts and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We applied a materiality of £2.4 million for our audit of the annual accounts. This equated to 1% of budgeted gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. Our performance materiality was £1.8 million. We report any misstatements greater than £0.12 million.

### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the IJB Chief Internal Auditor and reviewed internal audit reports as issued to the audit and performance systems committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended audit and performance systems committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

### Annual accounts preparation

Draft annual accounts were provided to us at the start of the audit fieldwork (17 July 2017). This included the management commentary and annual governance statement. Prior to this, the draft annual accounts were made available online on 13 June 2017 in line with the Local Authority Accounts (Scotland) Regulations 2014.

In advance of our audit fieldwork, we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. We arranged a meeting with management to discuss our requirements and expected timescales. We will continue to refine our prepared by client requests and work with management to refine the audit schedules provided.

We include a recommendation in appendix four, in respect of the need for a document management system.

### Significant risks and other focus areas in relation to the audit of the annual accounts

We summarise below the risks of material misstatement as reported within the audit strategy document.

*Significant risks (page 10 of this report):*

- management override of controls fraud risk.

*Other focus areas (page 11 of this report):*

- completeness and accuracy of expenditure; and
- financial statement disclosure.

*Wider scope risks (page 14 onwards of this report):*

- financial sustainability;
- financial management; and
- governance and transparency.

# Annual accounts and accounting (continued)

## Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as the standards consider management to typically be in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the IJB.</p> <p>Strong oversight of finances by IJB management, as well as management at the executive level, provides additional review of potential material errors caused by management override of controls.</p> <p>In line with our methodology, we carried out appropriate controls testing over the budget monitoring control, and agreed the total income, expenditure and debtor balances to confirmations from the partner organisations.</p>	<p>There were no specific circumstances identified which would indicate additional risk of management override of controls. No overrides in controls were identified.</p>

# Annual accounts and accounting (continued)

## Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Completeness and accuracy of expenditure</b></p> <p>The IJB receives expenditure forecasts from Aberdeen City Council and NHS Grampian. There is a risk that actual expenditure and resulting delegated income is not correctly captured.</p>	<p>The closing balances with the partner organisations were agreed to confirmations from each body, and the split of expenditure on the comprehensive income and expenditure statement agreed to reports from the partner organisations.</p> <p>The IJB does not post journals throughout the year, with financial processing taking place at the partner bodies. Consolidation adjustments are posted as part of the year end accounts preparation process. These post-closing entries were tested without exceptions identified.</p>	<p>The expenditure disclosed in the accounts is complete and accurate.</p>
<p><b>Financial statement disclosure</b></p> <p>The IJB prepared annual accounts for the first time in 2015-16 for the period from October 2015 to March 2016. We note that the previous auditor, Audit Scotland, reported that the annual accounts for this period were of a high standard, however it raised numerical and presentational adjustments.</p> <p>There is a risk in the IJB's first full accounting year, that the annual accounts and disclosures will not be prepared to the required quality and by the agreed timescales.</p>	<p>The draft IJB annual accounts were compared against the CIFPA local authority disclosure checklist as completed by IJB management. No significant omissions were identified.</p> <p>Furthermore, the draft annual accounts were reviewed against the LASAAC (The Local Authority (Scotland) Accounts Advisory Committee) guidance on integration joint board accounting. No omissions were identified.</p>	<p>Some small amendments were identified and actioned, however on the whole the annual accounts were prepared to a high standard. We consider that the annual accounts are prepared in accordance with financial reporting requirements.</p>

# Annual accounts and accounting (continued)

## Management reporting in annual accounts

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<b>Management commentary</b>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity annual accounts.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts and are content with the proposed report.</p> <p>We provided management with some minor suggestions relating to how the management commentary could be enhanced and where additional information disclosures should be made.</p>
<b>Remuneration report</b>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<b>Annual governance statement</b>	<p>The statement for 2016-17 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the governance framework of the IJB through the application of the Nolan principles, a review of the governance framework of the partner organisations, and a review of effectiveness of the IJB.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.</p>

# Annual accounts and accounting (continued)

## Qualitative aspects and future developments

### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the IJB to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the Code.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

There were no new accounting standards adopted by the Code during 2016-17 which affected the IJB.

There are no significant accounting estimates.

Financial statement disclosures were considered against requirements of the Code, relevant legislation and IFRS. No departures from these requirements were identified.

### Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the Code for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers*. A separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018/19* will be issued as a companion publication to the Code setting out the approach to these two standards.

Other changes to the 2017 Code include an amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report, and updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard.

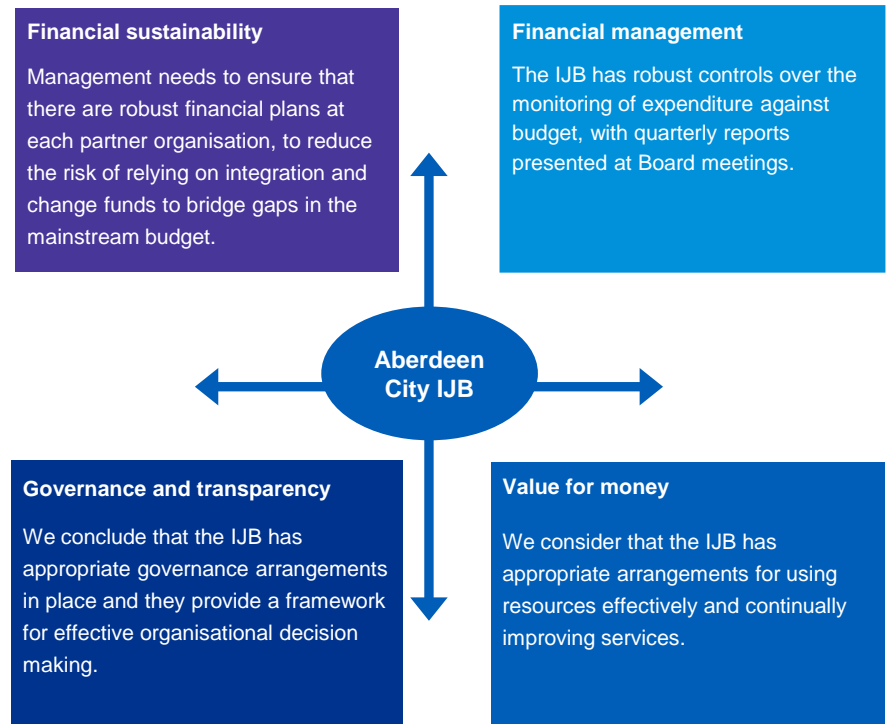
# Wider scope and Best Value Introduction

## Audit dimensions introduction

The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability; financial management; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we considered the work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.



# Wider scope and Best Value (continued)

## Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the IJB is planning effectively to continue to deliver its services. This is inherently a risk to the IJB given the challenging environment where funding is reducing in real terms and efficiency savings are required.

In assessing financial sustainability we consider whether the Board is able to balance budgets in the short term and whether longer term financial pressures are understood and are planned for, as evidenced by the Boards financial strategies and plans.

### Budget setting

The IJB receives budget allocations from NHS Grampian and Aberdeen City Council, and has a risk sharing agreement with both bodies covering 2016-17 and 2017-18. This gives the IJB comfort with regards to overspends in these two years, however there is a risk going forward regarding ongoing budget balance, specifically in the context of the NHS Grampian budget. The Local Delivery Plan (“LDP”) 2016-21 includes significant savings yet to be identified by NHS Grampian over the LDP period. The IJB budget is set one year in advance, in line with one-year budget allocations from Scottish Government, although IJB management is aware of the need to identify long term saving plans.

Aberdeen City Council also has financial pressures, and initially identified a £17.3 million budget shortfall in respect of 2017-18. Savings and efficiency proposals were identified by the Council at the time of budget setting. The Council has accepted proposals that will generate a £3 million surplus. These will be used to create a Change Fund Reserve.

The IJB’s budget for 2017-18 is balanced after identifying savings of £4.8 million and by allocating £2.4 million of integration and change funding to bridge the gap on a one-off basis. Management aims to recover this amount through identification of further savings where possible.

The chief financial officer has begun the budget setting process for the year ending 31 March 2019. Also, an indicative five year forecast has been produced using health intelligence regarding population growth and patterns of disease, as well as findings from collaboration with other IJBs on bed basing. This forecast considers where the IJB will be in five years if no movement is made to control budgetary pressures, and as such the five year forecast is not balanced. This predicts a £24 million increase to the baseline budget between 2017-18 to 2021-22 if all other factors remain the same.

### Integration and change fund

The IJB is looking to make savings without major service disruption, for instance by considering the skills mix in the workforce to ensure that work is carried out by staff at the right level of seniority. Beyond this, there is a commitment to transforming services, as the IJB acknowledges that demographic changes and financial challenges mean the status quo cannot continue.

There are six key areas which the IJB has identified as being an area where transformational change is required during 2017-18:

- organisational development and cultural change;
- modernising primary and community care;
- strategic commissioning;
- IT, infrastructure and data sharing;
- supporting self-management of long term conditions and building community capacity; and
- acute care at home.

(continued....)

# Wider scope and Best Value (continued)

## Financial sustainability

A transformation fund has been set up by the IJB to identify larger scale opportunities to improve services. Areas of transformational spend will be agreed by the IJB in line with the established governance procedures. Many priority areas for the IJB link to reducing delayed discharges. However, one of the challenges of partnership working is that by reducing delayed discharges the IJB creates savings for another organisation whilst increasing pressure on its own budget by delivering more health care services in the community.

### Reserves strategy

The IJB approved a reserves policy in October 2016 which sets out the statutory and regulatory framework for reserves, the operation of these reserves and the role of the chief financial officer in determining the adequacy of reserves held by the IJB. A financial target for reserves will be set each year during the budget setting process.

### Going concern

The annual accounts are prepared on a going concern basis. The IJB is in its infancy and is at the start of plans to transform services. However it has reserves of £10.4 million and a risk sharing agreement for 2017-18; reducing its exposure to significant overspends. In light of this position, the strong management of resources and the commitment from the two partner organisations we concur with the going concern basis.

### Conclusion

The IJB is operating in a difficult landscape, with budget constraints on both of its partner organisations and ongoing transformation programmes at each. The main financial risk to the IJB is the level of funding delegated relative to the growing demand on services.

Progress is being made to identify efficiency savings in the short term and to deliver transformational change over the longer term in order to address some of the financial challenges faced.

Management needs to ensure that the robust financial plans are in place at each partner organisation, to reduce the risk of relying on integration and change funds to bridge gaps in the mainstream budget inappropriately.

In order for the IJB to be financially sustainable, efficiency savings need to be identified and quantified, and we acknowledge that the IJB and partner organisations are in the process of delivering change programmes with this in mind.



# Wider scope and Best Value (continued)

## Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is a risk given that the IJB is in its first year of directing services.

The chief finance officer is responsible for ensuring that appropriate financial services are available to the IJB and the chief officer.

### Financial monitoring

The IJB's financial management comes under a reasonable degree of scrutiny, with budgets monitored at IJB, local authority and NHS level.

The IJB produces a quarterly finance update which is taken to both the Board and the audit and performance systems committee. From our review of the minutes and attendance at meetings, it is evident that there is a sufficient level of scrutiny, and these reports have allowed the IJB to address overspends in a timely fashion.

Furthermore, a monthly finance update is provided from NHS Grampian to IJB management. Aberdeen City Council is in the process of developing its financial reporting procedures in order to enable regular reporting of council results.

### Internal audit

The IJB has an internal audit function which undertake reviews at both the IJB level and the local authority level. NHS Grampian has its own internal audit function, however any reviews specific to the IJB are shared with the Board and audit and performance systems committee. Internal audit completed seven internal audit reviews during 2016-17 (with three still in draft). Recommendations graded as 'major' were identified in relation to Aberdeen City Council adult social work purchasing and creditors procedures. Internal audit are satisfied that the actions agreed by the Council's audit, risk and scrutiny committee were appropriate. Limitations of scope were reported in relation to the Care First system due to data protections concerns; access to this system has been agreed going forward. Despite these issues internal audit were able to conclude that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system.

### Financial regulations

The IJB has standing financial regulations which determine how spend can be authorised. The highest expenditure that can be approved by the Chief Officer is £50,000, with anything above that level having to go through the Board, which conducts its meetings in public.

# Wider scope and Best Value (continued)

## Financial management

### Finance function capacity

The S95 officer is the chief finance officer, therefore has appropriate status within the IJB and access to the partner chief executive officers and Board members. The finance function consists of the chief finance officer, and other resources are used as required from Aberdeen City Council and NHS Grampian finance teams. Finance function capacity is considered to be appropriate, however we recognise that resourcing is a challenge for the IJB without its own dedicated finance team.

The Council provides induction and ongoing training for both elected members and other Board members. An induction session was held for new elected members following the May elections. This was open to all Board members and was intended to give an understanding of the IJB and also covered governance issues such as the code of conduct and the Nolan principles. There is an ongoing calendar of workshops which take place after most Board meetings to address upcoming subjects and are intended to give members the knowledge they need in order to provide appropriate scrutiny.

### Conclusion

The IJB has appropriate controls over the monitoring of expenditure against budget, with quarterly reports going to public board meetings and evident scrutiny of costs.

Financial capacity is appropriate, however resourcing is a challenge for the IJB as it does not have a dedicated finance team.

# Wider scope and Best Value (continued)

## Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. This is a risk for the first full year of directing services, as arrangements become mature.

### Governance framework

The integration scheme between Aberdeen City Council and NHS Grampian sets out the key governance arrangements.

The Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the IJB and for monitoring the adequacy of these arrangements. To assist in this role, the IJB developed an assurance framework in conjunction with the Good Governance Institute, which provides readers with an understanding of the governance framework and the assurances that can be obtained from it.

The Board comprises a wide range of service users and partners including elected councillors nominated by Aberdeen City Council and directors nominated by NHS Grampian. Following the local government elections in May 2017 new elected members joined the Board. An induction session was arranged for these new members, and was open to any member of the Board. This provided the members with an understanding of the IJB and its role.

An audit and performance systems committee was set up to review the overall internal control arrangements of the board and to make recommendations to the board regarding signing of the governance statement.

A second committee, the clinical care and governance committee, focuses on operational issues.

The Board appointed a Chief Officer who provides overall strategic and operational advice to the Board and is accountable for the delivery of services. The Chief Officer is also accountable to both the Chief Executive of Aberdeen City Council and the Chief Executive of NHS Grampian and provides regular reports to both the council and the NHS board.

The Board and audit and performance systems committee met on a regular basis throughout the year. We review minutes from each to assess their effectiveness. We also periodically attend meetings of the audit and performance systems committee. From this we have concluded that the committee is effective and provides robust challenge.

### Risk management

The IJB has worked with the Good Governance Institute to review all of its governance arrangements, and this has included carrying out a review of the IJB's assurance framework. This provided assurance that key risks to the achievement of integration objectives have been appropriately identified, communicated and addressed.

Risk registers are regularly updated and scrutinised by management and the audit and performance systems committee.

### Internal control

Aberdeen City Council and NHS Grampian 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 as the council and health board, including the work performed by internal audit.

# Wider scope and Best Value (continued)

## Governance and transparency (continued)

### Internal Audit

Internal audit provides the Board and Chief Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. Each partner organisation has its own internal audit service, with Chief Internal Auditor of Aberdeen City Council also holding the appointment of Chief Internal Auditor of the IJB.

The Board's Chief Internal Auditor uses the results of the audit work carried out at Aberdeen City Council and NHS Grampian to form an opinion on the Board's systems of governance, risk and internal control. For 2016-17 the Board's Chief Internal Auditor concluded that reasonable assurance can be placed on the adequacy and effectiveness of the Board's systems of governance, risk and internal control.

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ("PSIAS"), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We reviewed internal audit reports and conclusions, and through discussion obtained the views of internal audit of risks of fraud within the Council.

The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our audit approach.

### Fraud

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, investigations will be carried out by the internal audit service of the partner body where any fraud or irregularity originates. NHS Grampian can also call on the expertise of Counter Fraud Services provided through NHS National Services Scotland.

### Transparency

The public should be able to hold the Board to account for the services it provides. Transparency means that the public has ready access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.

Full details of the meetings held by the Board and, as of February 2017, the audit and performance systems committee are available through the IJB website and the Aberdeen City Council website. Members of the public can access committee papers and minutes of meetings, with exempt items minimised as much as possible. Members of the public are welcome to attend board meetings and audit and performance systems committee meetings.

We have not found evidence to suggest that information is unjustifiably withheld from public scrutiny. Furthermore, members of the public can attend meetings of the Board.

The Chief Officer can only approve expenditure up to £50,000, with anything larger subject to approval from the local authority or NHS board. These directions are disclosed in the IJB minutes meaning that significant items of expenditure are publicly visible.

Overall we concluded that the Board is open and transparent.

### Conclusion

We consider that the IJB has appropriate governance arrangements in place and they provide a framework for effective organisational decision making. The IJB considered the governance framework at its formation, including working with the Good Governance Institute to ensure that structures and processes are appropriate.. We consider that scrutiny is robust and transparent.

# Wider scope and Best Value (continued)

## Value for money

Value for money is concerned with using resources effectively and continually improving services.

The Public Bodies (Joint Working) (Scotland) Act 2014 sets out a broad framework for creating integration authorities. This allowed boards a flexibility to enable them to develop integrated services that best suited local circumstances.

The Integration Scheme specifies the range of functions delegated by the Aberdeen City Council and NHS Grampian to the IJB. The IJB is responsible for establishing effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account.

### Performance management

Integration authorities are required to contribute towards nine national health and wellbeing outcomes which are intended to focus on the needs of the individual to promote their health and wellbeing, and in particular, to enable people to live healthier lives in their community.

In order to review performance the IJB developed a performance management framework. An updated performance dashboard is presented to the Board twice per year and an annual performance report is also presented. These reports summarise performance to date towards the nine national health and wellbeing outcomes and the IJB's local strategic outcomes.

### Value for money in key decisions

The IJB has faced difficult decisions over the course of the year, driven by financial challenges. For example, in prioritising integration and change fund projects to be taken forward.

The board considers and discusses difficult decisions throughout the year as appropriate. These are supported by options appraisals and business cases where appropriate. As already noted, the Chief Officer can only approve expenditure up to £50,000, with anything larger subject to approval from the local authority or NHS board.

### Conclusion

We consider that the IJB has appropriate arrangements for using resources effectively and continually improving services.



# Appendices

# Mandated communications with the audit performance and systems committee

MATTERS TO BE COMMUNICATED	LINK TO AUDIT PERFORMANCE AND SYSTEMS COMMITTEE REPORTS
Relationships that may bear on the firm's Independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Combined Code)	See appendix three.
The general approach and overall scope of the audit, including levels of materiality, fraud risks, business risks and audit responses and engagement letter (ISA 260)	Main body of this paper
Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report (ISA 260)	There were no such disagreements.
The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260)	There are no such matters to report.
Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements (ISA 260)	There were no audit adjustments required to the draft financial statements which could have had a material effect on the IJB's annual accounts.
The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 260)	Accounting policies and practices selected by the IJB are appropriate for the organisation and are in line with the requirements of the Local Authority code of Practice.
The auditor's view on valuations and related disclosures (ISA 260)	There are no valuations within the IJB's financial statements.
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 260)	We have reviewed management's assessment that the IJB is a going concern and agree with this assessment.
Expected modifications to the auditor's report (ISA 260)	There are modifications to the auditor's report.
Other matters warranting attention by those charged with governance, such as effectiveness of internal controls relevant to financial reporting, material weaknesses in internal control, questions regarding management integrity, and fraud involving management (ISA 260 and ISA 240)	There are no such matters to report.

## Appendix two

# Appointed auditors responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE'VE MET OUR RESPONSIBILITIES
<b>Statutory duties</b>	Undertake statutory duties, and comply with professional engagement and ethical standards.	We have undertaken our statutory duties and complied with professional and ethical standards. Our independence letter is at page 24.
<b>Financial statements and related reports</b>	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.	Page 8 summarises the opinion we expect to provide.
<b>Financial statements and related reports</b>	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration reports.	Page 12 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
<b>Financial statements and related reports</b>	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	No notifications to Controller of Audit required.
<b>Corporate governance</b>	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 19 sets out our conclusion on these arrangements.
<b>Wider audit dimensions</b>	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> <li>— Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>— Suitability and effectiveness of corporate governance arrangements;</li> <li>— Financial position and arrangements for securing financial sustainability;</li> <li>— Effectiveness of arrangements to achieve best value; and</li> <li>— Suitability of arrangements for preparing and publishing statutory performance information.</li> </ul>	Our consideration of the wider dimensions is outlined on pages 14-20.



# Appendix three

## Auditor independence

### Assessment of our objectivity and independence as auditor of the Aberdeen City Integration Joint Board (“the IJB”)

Professional ethical standards require us to provide to you at the completion stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

We will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the IJB for professional services provided by us during the reporting period.

The audit fee charged by us for the period ended 31 March 2017 was £21,500 (excl VAT). No other fees were charged in the period. No non-audit services were provided to the IJB and no future services have been contracted or had a written proposal submitted.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the IJB.

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the IJB and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

# Appendix four

## Action plan

The action plan summarises specific recommendations arising from our work, together with related risks and management's responses.

We present the identified findings across three audit dimensions:

- financial sustainability
- financial management
- governance and transparency
- value for money

### Priority rating for recommendation

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p><b>1.</b> <i>Audit dimension: Financial management (page 9)</i></p> <p>There were some delays during the audit due to incorrect versions of documents being provided in the first instance. It was found that the IJB does not have a document management system, so collaborative work between the partners takes place on e-mailed documents.</p> <p>There is a risk that without proper version control in place, incorrect figures could be used to populate the financial statements with erroneous changes not tracked. Where there are deadlines for accounts preparation, these inconsistencies may not be noted.</p>	<p>The IJB should consider implementing a document management system with version control features to allow collaborative working to take place with a greater degree of oversight,</p>	<p style="text-align: center;"><b>Grade three</b></p> <p><b>Management response:</b> Agreed</p> <p><b>Responsible officer:</b> Alex Stephen</p> <p><b>Implementation date:</b> 31 March 2018</p>

## Appendix five

# Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2015-16 audit and their current status.

Number recommendations raised	Implemented	In progress	Overdue
1	1	-	-

We provide a summary of progress against the action below.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
1.  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 are currently being developed. Risk The board cannot effectively monitor the delivery of its strategic objectives.	The board should aim to implement and monitor key performance measures, even on a phased basis, as soon as possible.	Progress is being made and a short life working group is established and working on developing the framework for approval by the IJB.	Complete, as noted on page 20.



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