

Argyll & Bute Integration Joint Board

2016/17 Annual Audit Report



 AUDIT SCOTLAND

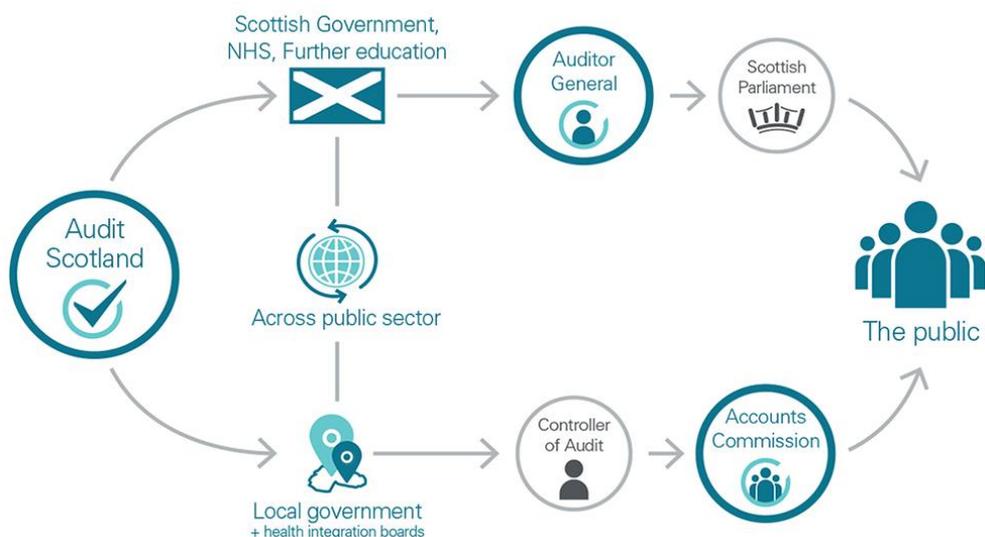
Prepared for the Argyll & Bute Integration Joint Board and the Accounts Commission

5 September 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2016/17 annual report

- 1 Our audit opinions were all unqualified. These covered the financial statements, the remuneration report, the management commentary and the annual governance statement.

Financial management

- 2 The IJB has satisfactory financial management arrangements in place, however areas for improvement have been identified, specifically around the integration of financial reporting to the IJB by Argyll & Bute Council and NHS Highland.
- 3 The IJB spent £259.137m on delivering health and social care services to the residents of Argyll & Bute and, overall, realised a surplus of £0.479m against a budget of £259.616m. This surplus has been transferred to a reserves balance, of which £0.451m is earmarked for specific purposes.

Financial sustainability

- 4 Total savings of £4.814m were achieved against the total target of £8.498m for 2016/17.
- 5 Savings of £10.135m are required for 2017/18. It is important that the IJB prioritises medium to long term financial planning to demonstrate financial sustainability and support future developments.

Governance and transparency

- 6 The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board.
- 7 We obtained audit assurance over the accuracy and completeness of financial transactions processed by the partner bodies.
- 8 The IJB's internal audit service complies with Public Sector Internal Audit Standards.

Value for money

- 9 The audit findings included throughout this report, comment on arrangements that have been put in place by the Joint Board to secure Best Value in areas such as the financial position, financial management and governance arrangements. We will keep this area under review over the five-year audit appointment and will report as appropriate.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Argyll & Bute IJB, hereby referred to as the 'IJB'. The report is divided into sections which reflect our public sector audit model.
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit Committee. It comprises an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public sector audit requirements as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of the IJB's main financial systems and governance arrangements
 - an audit of the IJB's 2016/17 annual report the issue of an independent auditor's report setting out our opinions.
4. The IJB is responsible for preparing the annual report that show a true and fair view and, for establishing effective arrangements for governance that enable them to successfully deliver their objectives.
5. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supplementary guidance, and are guided by the auditing profession's ethical guidance.

6. These responsibilities include giving independent opinions on the financial statements, the remuneration report, the management commentary and the annual governance statement. We also review and report on the arrangements within the IJB to manage its performance, and use of resources. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#) and supplementary guidance.

8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 18\)](#). It sets out specific recommendations, responsible officers and dates for implementation.

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

10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

11. This report is addressed to both the IJB Board and the Accounts Commission and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

12. We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Our audit opinions were all unqualified. These covered the financial statements, the remuneration report, the management commentary and the annual governance statement.

Unqualified audit opinions

13. The annual report for the year ended 31 March 2017 was approved by the Board on 27 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- unqualified opinions on the remuneration, management commentary and the annual governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of annual report for audit

15. We received the unaudited financial statements on 23 June 2017, in line with our agreed audit timetable. Financial information was provided to the IJB in a timely manner from the partner bodies in order to allow them to produce the accounts before the statutory deadline. The partner bodies also provided the IJB with assurance letters confirming that the figures were complete and accurate

16. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

17. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

19. Our initial assessment of materiality for the annual report was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the annual report, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the unaudited 2016/17 Annual Accounts we reviewed our original materiality figures and revised the levels to reflect the gross expenditure for the year ended 31 March 2017.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£2.591 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of overall materiality.	£1.555 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of overall materiality.	£0.050 million

Evaluation of misstatements

21. There were no misstatements which had an impact on the unaudited Financial Statements.

Significant findings

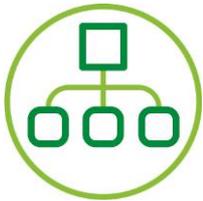
22. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. In our view there are no significant findings to be communicated to those charged with governance in accordance with ISA 260.

Other Findings

23. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Part 2

Financial management



Main judgements

The IJB would benefit from the alignment of financial monitoring data from its partner organisations.

No weaknesses in internal controls were identified in the systems used to process IJB transactions.

We are satisfied that the IJB has adequate arrangements in place for the prevention and detection of fraud.

Financial management

24. Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner.

25. 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 IJB
- 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

26. The Chief Financial Officer is responsible for ensuring that appropriate financial services are available to the IJB and the Chief Officer. The Chief Financial Officer was in post on a part time basis for the majority of the year. Given the importance of this role within the IJB, it is a positive development that the Chief Financial Officer is now working full time on IJB related matters as of March 2017.

27. We reviewed the financial regulations and standing orders, which were created on the formation of the IJB and we consider these to be comprehensive.

28. The finance teams of NHS Highland and Argyll & Bute Council operate independently, use different financial systems, and report separately to the IJB Chief Financial Officer. The current reporting arrangements pose challenges for

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

aligning financial monitoring data for the IJB and also for promoting an integrated approach to managing resources across the organisation. There is a risk that the efficiency and effectiveness of integrated budget monitoring information is impaired. Although the IJB has recognised this risk, there is still progress to be made to ensure the alignment of financial reporting. [Action Plan \(Appendix 1, point 1\)](#).

29. Overall we have concluded that there is scope to improve the current budget monitoring and reporting processes, particularly in relation to the alignment of financial reporting by Partners of the IJB.

Financial performance in 2016/17

30. The IJB does not hold any assets, nor does it directly incur expenditure or employ staff, other than on the Chief Officer and Chief Finance Officer. All funding and expenditure for the IJB is incurred by partner bodies and processed in their accounting systems. Satisfactory arrangements are in place to identify this income and expenditure and report the financial information to the IJB.

31. The year end outturn position is an overall surplus of £0.479m. This consists of a surplus in Health delivered services of £0.703m, partly offset by a deficit in Council delivered services of £0.224m. The surplus of £0.479m has been allocated to reserves with £0.451m of this being earmarked to reinstate funding for specific grant funded projects. A budget summary for the year is shown in [Exhibit 3](#).

Exhibit 3

Budget Summary

2016/17 IJB budget objective summary	Budget £m	Actual £m	Variance £m
Net Expenditure	259.616	259.137	0.479
NHS Highland	198.829	198.126	0.703
Argyll & Bute Council	60.787	61.011	(0.224)
Total Net Expenditure	259.616	259.137	0.479
Surplus (from NHS Highland to be retained by the IJB)	0	0.703	0.703
Deficit (from Argyll & Bute Council to be retained by the IJB)	0	(0.224)	(0.224)
Earmarked Reserves	0	0.451	0.451

Source: Argyll & Bute IJB Year End Outturn Report 2016/17

Internal controls

32. The IJB relies on the NHS Highland and Argyll & Bute Council for its key financial systems, including ledger and payroll. Income and Expenditure is processed through each of the parent ledgers relating to their services for the IJB.

33. As part of our audit approach we sought assurances from the external auditors of the Health Board and the Council (in accordance with ISA 402) and confirmed there were no weaknesses in the systems of internal controls for those bodies, specifically around the systems relied upon by the IJB.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

34. The IJB has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members. The IJB has been proactive in ensuring members are aware of their responsibilities under the Code of Conduct, with development sessions being put on for them to aid in their understanding of this. These sessions have helped to ensure their compliance with the Code. In addition to this, a register of interest is kept for all members of the IJB.

35. As part of the assurances obtained from the external auditors of the Health Board and Council, it was confirmed that both the partner organisations had in place effective policies for bribery and corruption, including established whistleblowing procedures for officers.

36. The arrangements for the prevention and detection of bribery and corruption are satisfactory and we are not aware of any specific issues that we need to record in this report.

Part 3

Financial sustainability



Main judgements

The IJB's financial position is sustainable but challenging. The IJB realised a surplus of £0.479 million, however it did not meet its savings target in 2016/17.

The IJB requires significant savings to be made in the medium to longer term. No medium to longer term financial plans have yet been developed.

Financial Planning

37. The IJB allocates the resources it receives from the Health Board and Council in line with the Strategic Plan. Due diligence was undertaken to consider the sufficiency of the 2016/17 budget provided for the IJB.

38. As previously reported in paragraph 31, the IJB achieved a surplus of £0.479m in 2016/17. This is a more favourable outcome than the original budget set in March 2016.

39. The Board approved the budget for 2017/18 at the Board meeting on 29 March 2017. At the meeting, the Board also noted indicative figures for 2018/19. The 2017/18 budget was based on expenditure of £266.052m to deliver partnership services, with Argyll & Bute Council contributing £56.360m and NHS Highland £197.945m. This left a budget gap of £11.013m. In year savings of £8.197m were identified leaving a remaining budget gap of £2.816m for 2017/18 and a further £5.601m for 2018/19. The IJB requires to undertake further work to identify additional savings or cost reductions to ensure an ongoing balanced budget position.

40. The Chief Financial Officer presented an update on this position at the meeting of the Board on 31 May 2017. Although further work was undertaken to identify savings, there remained a budget gap of £1.982m for 2017/18 and £4.153m for 2018/19. At the subsequent meeting of the Board on 2 August 2017, it was identified that this position had worsened in the first quarter of 2017/18. The forecast year end overspend has increased to £4.966m for 2017/18. [Action Plan \(Appendix 1, point 2\)](#).

Reserves strategy

41. At the IJB Board meeting on 29 March 2017, the Reserves Policy was approved. This outlines that the target for unallocated reserves would be 2% of the IJB's net revenue budget, although it recognises this target as challenging in the current financial climate. The surplus of £0.479m for 2016/17 has been allocated to reserves with £0.451m of this being classed as earmarked reserves.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

42. We are satisfied that the IJB's reserves policy and reserves strategy sets out the circumstances in which reserves can be created, and the governance arrangements around their use.

Savings

43. The Argyll & Bute IJB required to make £8.498m of savings in 2016/17. However there was a savings shortfall of £3.684m with only £4.814m being achieved in the year. The shortfall will be added to the savings required for 2017/18.

44. The IJB's Quality and Finance Plan for 2017/18 to 2018/19 has identified an overall budget gap for the delivery of Health and Social Care services amounting to £18.551m over the next two years, £10.135m for 2017/18 and £8.416m for 2018/19. Savings of £12.416m have so far been identified, with £8.153m planned to be delivered in 2017/18 and a further £4.263m in 2018/19.

45. The Plan does not fully address the estimated budget gap with a shortfall in identified savings of £1.982m in 2017/18 and a further £4.153m in 2018/19. There will be a requirement for the IJB to identify further service changes to bridge this gap.

46. 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 IJB finances.

47. The maintenance of a sound financial position going forward is dependent on achieving significant savings to bridge the gap between available funding from current sources and the cost of services.

48. The IJB does not currently have medium to long term financial plans in place. However, work is ongoing in this area to develop these plans. The IJB is fully funded from both the Council and Health Board and funding from the Scottish Government to these partner organisations is based on a year-on year-basis. However, this should not preclude the IJB from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes, particularly given the requirement for ongoing savings. [Action Plan \(Appendix 1, point 3\)](#).

Workforce planning

49. For a number of reasons, including the rural nature and particular geography of Argyll & Bute, the IJB's partner organisations and commissioned service providers have difficulty in attracting staff for some specialties. This leads to the increased use of temporary staff.

50. Temporary staffing allows for flexibility in the short term by providing cover for sickness absence and vacancies but this comes at a cost. The use of temporary staff can cost significantly more than permanent staff. This puts additional pressure on the Board's budget.

51. The IJB does not have a workforce plan in place clearly setting out what staff resources will be required for service delivery across the statutory, independent and third sectors. To date, the IJB has developed a workforce planning toolkit within one of its localities. The IJB is taking a bottom up approach to ensure that the needs of each locality are addressed appropriately. However, this toolkit has yet to be rolled out to all localities within the IJB and there remains no overarching workforce plan in place. [Action Plan \(Appendix 1, point 4\)](#).

Part 4

Governance and transparency



Main judgements

The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board.

The IJB has appropriate risk management arrangements which are subject to regular review by the board. We note the ongoing commitment to further improving risk management arrangements.

Governance arrangements

52. The Argyll and Bute Integration Joint Board was formally established on 29th June 2015 but did not have operational responsibility in year for delegated services. These services were delegated to the Board on 1 April 2016. The Board has representation from a wide range of service users and partners including four elected councillors nominated by Argyll and Bute Council and four Non-Executive Directors nominated by NHS Highland.

53. The Board is responsible for the management and delivery of health and social care services in the Argyll and Bute area and is supported by an Audit Committee a Strategic Planning Group and a Clinical and Care Governance Committee.

54. The Board is also supported in its work by a Chief Officer and Chief Financial Officer. The former provides strategic and operational advice to the Board while the latter is responsible for financial management including budget monitoring reports.

55. The Board and Audit Committee met on a regular basis throughout the year. We review minutes of Board and Audit Committee meetings to assess their effectiveness. We also periodically attend meetings of the Audit Committee. Additionally, we attend selected Board meetings as observers.

56. As part of the wider review of governance arrangements across the public sector, we completed a follow-up of the 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at council and committee meetings. From this work we found:

- At a number of board and audit committee meetings we attended, we observed appropriate level of challenge being applied to decision making.
- Good standards of conduct and behaviour were also observed and

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.

- The IJB has taken steps to improve member training and development. There are workshop training events arranged for members throughout the year ensure that all members have the appropriate training to carry out their roles.

57. As auditors we attend a number of IJB meetings and Audit Committee meetings. Members provide a reasonable level of challenge on significant variances and service performance issues

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

Internal audit

59. Internal audit provides the IJB board and Accountable Officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.

60. The internal audit function is carried out by Scott Moncrieff. We carried out a review of the adequacy of the internal audit function and concluded that it operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

61. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, we considered internal audit report findings as part of our wider dimension audit work in particular their reviews of the IJB's Corporate Governance and Financial Monitoring and Performance reports.

Risk management

62. We reviewed the risk management arrangements within the IJB to assess their effectiveness and appropriateness. This included consideration of the Risk Management Strategy which sets out the IJB's vision for risk management together with a supporting framework that includes details of officer and member responsibilities in relation to this.

63. The IJB has recognised the need to refresh its risk register as the current version contains risks not considered sufficiently strategic for the register. Board members should be encouraged to contribute their views on key risks when the update of the register is undertaken.

64. Based on our review of the evidence we concluded that the IJB has appropriate risk management arrangements which are subject to regular review by the board. We note the ongoing commitment to further improving risk management arrangements.

Transparency

65. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the IJB is taking decisions and how it is using resources.

66. Full details of the meetings held by the Board are available through the Argyll & Bute Council website and meetings of the Board are open to the public to attend. We noted that the Audit Committee papers were not available on the website and the meetings are not open to the public. The IJB has recognised the need to improve its transparency in this area and we welcome their decision to approve the publication of Audit Committee meeting papers online.

67. The public have a right to inspect and object to the IJB's annual accounts. The relevant advert and the unaudited accounts have been published on the Argyll and Bute Council website.

68. Overall, we concluded that the IJB conducts its business in an open and transparent manner.

Other governance arrangements

69. The IJB is committed to ensuring the involvement of partner groups including community planning groups, the third sector, the independent sector and local communities. The Strategic Plan and locality planning arrangements enable partners to engage in and support the delivery of the health and social care provision.

Part 5

Value for money



Main judgements

The IJB has appropriate arrangements for considering national performance audit reports.

Best Value

70. Local government bodies, including IJBs, have a statutory duty to make arrangements to secure Best Value (BV) through the continuous improvement in the performance of their functions. The characteristics of a Best Value organisation are laid out in Scottish Government Guidance issued in 2004.

71. Value for money is a key element of our audit approach. The audit findings included throughout this report, comment on arrangements that have been put in place by the Joint Board to secure BV in areas such as the financial position, financial management and governance arrangements. We will keep this area under review over the five-year audit appointment and will report as appropriate.

National performance audit reports

72. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the Board. These are outlined in [Appendix 3 \(page 23\)](#).

73. In December 2015, we published the first of three national reports looking at the integration of health and social care. In the report we recognised that The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms are far reaching and have scope to address previous barriers to providing the right care for people closer to home. We also reported some significant risks to the success of health and social care integration. These included complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. The scale of the change is significant and will not happen quickly. Therefore, we will carry out a second audit in 2018, now integration authorities are more established, to look at progress and to follow up on these risks. The audit will also examine changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people.

74. There are arrangements in place within the IJB to consider these national reports. The key points and recommendations from the reports are identified and management provide a response or a follow up action to these if required. The recommendations with management responses are then presented to the IJB's Audit Committee for review and consideration.

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

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
10	<p>1. Integrated Financial Reporting</p> <p>The finance teams of NHS Highland and Argyll & Bute Council operate independently, use different financial systems, and report separately to the IJB Chief Financial Officer. This poses challenges of aligning financial monitoring data for the IJB.</p> <p>Risk</p> <p>There is a risk that the efficiency and effectiveness of integrated budget monitoring information is impaired.</p>	<p>Partner financial reporting should be aligned to improve the efficiency of the IJB's financial monitoring.</p>	<p>Current team structure and set up will continue to require separate financial systems, however agreed project timeline is in place to improve approach to financial management. This plan includes co-location of finance teams, consistency of approach to financial forecasting, training for budget managers and integrated finance reports to LPGs and operational management teams.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: by March 2018</p>
12	<p>2. Balanced Budgets</p> <p>Between 2017/18 and 2018/19 the board has identified a budget gap of £18.551 million. This is split £10.135m for 2017/18 and £8.416m for 2018/19. The board has yet to identify £1.982 million of necessary savings for 2017/18 with a further £4.153m yet to be identified for 2018/19.</p> <p>The position has since worsened to a forecast budget shortfall of £4.966m.</p> <p>Risk</p> <p>The board may not be able to deliver a balanced budget</p>	<p>The board should ensure that saving plans are developed identifying how the budget gap will be addressed for 2017/18.</p> <p>This will require strong financial management and budgetary control by the IJB and between parties to ensure the IJB achieves a balanced budget for the year.</p>	<p>The approach agreed in May 2017 was to manage the £2m through negotiations of the SLA with NHS GG&C and also through in-year management efficiencies. The financial position has worsened since the start of the year (£5m forecast overspend at the end of June 2017). A financial recovery plan will be presented to the IJB on 27 September, with management actions implemented in the meantime to address the forecast overspend position.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: March 2018</p>



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

2017/18 and 2018/19 resulting in service delivery being impacted.

13

3. Financial Sustainability

The Board did not achieve its savings target of £8.498m for 2016/17, with only £4.814m being realised. Further savings of £12.416m have been identified with £8.153m planned to be delivered in 2017/18 and a £4.263m in 2018/19.

Risk

There is a risk that further savings are not fully achieved. This may impact on the delivery of services and the ability of the IJB to meet its strategic objectives.

Medium to long term financial plans should be developed to take account of any required future budget savings pressures on the IJB.

The IJB has agreed in principal to establish a Quality and Finance Plan group to oversee implementation of the Q&F Plan, to oversee financial recovery plans and to further develop the Q&F Plan to identify further service changes. This will include oversight of the project management arrangements and a move towards longer term financial planning.

Responsible officer: Chief Financial Officer

Agreed date: March 2018

13

4. Workforce Planning

The IJB does not have an overarching workforce plan in place clearly setting out what staff resources across the statutory, independent and third sectors will be required for service delivery.

Risk

Without such a workforce plan there is a risk that the IJB will find it difficult to identify and address its future staffing and skills needs this may impact the achievement of the key objectives of its corporate strategy.

The IJB should prepare an organisation-wide workforce plan.

The IJB is progressing development of HSCP wide workforce plan with the support of ihub. This involves development of a workforce planning model which has been piloted in the Oban locality. This is being further developed and will be rolled out to support workforce planning and action plans in the remaining localities.

A short life workforce planning group will be set up to oversee and govern the approach and will report back to the SMT on progress.

Responsible officer: Head of Strategic Planning and Performance

Agreed date: March 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm income and expenditure has been accounted for in the correct financial year.</p>	<p>Satisfactory written assurances were received from the external auditors of the council and health board regarding journal testing and accuracy, allocation and cut-off of IJB transactions.</p> <p>No fraud concerns were identified from our work in relation to the risk of management override of control.</p>
<p>2 Preparation of 2016/17 financial statements</p> <p>The IJB became operational on 1 April 2016 and will therefore need to prepare more complex 2016/17 financial statements than those prepared for 2015/16. The IJB will also be required to provide information necessary for NHS Highland and Argyll and Bute Council's financial statements and the timetable for this will be challenging due to the health board's financial statements having to be prepared in early May. The IJB will need to put measures in place such as a year-end timetable to ensure it can prepare timely, accurate and Code compliant accounts and provide the necessary information to the health board and the council within the required timescales.</p>	<p>Review of accounts preparation timetable once prepared.</p> <p>On-going dialogue with officers to ensure the accounts are prepared and audited within the required timescales.</p> <p>Review of compliance with accounting standards/ the Code as part of financial statements audit.</p>	<p>The IJB annual accounts met the timescales necessary to meet NHS reporting requirements.</p> <p>There was on going communication with the Chief Finance Officer over the preparation of the accounts to ensure relevant information was included within the annual accounts</p> <p>The required information was disclosed within the accounts and the financial statements were prepared in accordance with the Code.</p> <p>Satisfactory written assurances were received from the external auditors of the council and health board regarding accuracy, allocation and cut-off of IJB transactions.</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial sustainability</p> <p>The IJB receives funding from Argyll and Bute Council and NHS Highland. The budget outlook report to end of December 2016 forecasts a shortfall of £16.3 million in 2017/18 (including the projected overspend for 2016/17) and £5.7 million in 2018/19. This creates a risk over the financial sustainability of the IJB. The IJB has recognised this risk as part of its risk management process.</p>	<p>Review of approach to medium and long-term financial planning, including any scenario planning.</p> <p>Review of budget outlook reports and other reports presented to the board members.</p>	<p>Although currently there are no medium to longer term financial plans in place, management have advised that work is ongoing in this area.</p> <p>Action Plan (Appendix 1, point 3).</p>
<p>4 Financial management - year end outturn</p> <p>The approved budget for 2016/17 shows income and expenditure of £256 million. The budget monitoring report to end of December 2016 projects a year-end overspend of £1.1 million. It also indicates that the IJB may not be able to achieve £3.5 million of its savings target of £8.5 million for 2016/17. There is therefore a risk that the IJB will not break even in 2016/17 and this may in turn increase the already substantial financial pressures for 2017/18 and beyond.</p>	<p>Monitor the financial position throughout the year by reviewing budget monitoring reports.</p> <p>On-going dialogue with officers regarding the projected year end outturn.</p> <p>Review of the IJB's achievement of outturn at year end.</p> <p>Review of financial statements to ensure that expenditure and income has been accounted for in the correct financial year.</p> <p>Consideration of internal audit's review of financial and performance monitoring.</p>	<p>Ongoing financial monitoring was consistently reported to the Board. Budget movements and variances from previous periods were explained, as were forecast year end positions.</p> <p>The IJB achieved a year end surplus of £0.479m. This was better than the original budget set in March 2016.</p> <p>Internal Audit's work on financial and performance monitoring identified that there were some weaknesses in financial management, specifically regarding the lack of integration between the financial reporting to the IJB by the health board and council. This is an area for further improvement.</p> <p>Action Plan (Appendix 1, point 1).</p>
<p>5 Workforce planning</p> <p>The IJB has identified a risk that, due to the rural nature and challenging geography of Argyll and Bute, its partner organisations commissioned to deliver services may not be able to attract appropriate clinical staff such as GPs. The IJB does not have a workforce plan in place clearly setting out what staff resources across the statutory, independent and third sectors will be required for service delivery.</p> <p>Without such a workforce plan there is a risk that the IJB is</p>	<p>Monitor progress with the preparation of the workforce plan.</p>	<p>The IJB has developed a workforce toolkit in its Oban locality.</p> <p>There is still progress to be made on an overarching workforce plan for the IJB.</p> <p>Action Plan (Appendix 1, point 4).</p>

Audit risk	Assurance procedure	Results and conclusions
unable to achieve key objectives of its corporate strategy.		

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

IJB relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

Argyll & Bute Integration Joint Board

2016/17 Annual Audit Report

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