

East Lothian Integration Joint Board

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the East Lothian Integration Joint Board and the Accounts Commission

12 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

2016/17 annual accounts

- 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 Integration Joint Board (the IJB) broke even and spent £153.88m on delivering health and social care services. However both East Lothian Council and NHS Lothian were required to provide additional resources to achieve a break-even position.
- 3 In 2016/17 financial assurance reports were presented to the Board. Quarterly budget monitoring reports are due to be presented in 2017/18 which will further assist members in identifying emerging risks.
- 4 There was no risk sharing framework in place between the IJB and its partners during the year and there are no plans to formalise this going forward.

Financial sustainability

- 5 2017/18 budget proposals from the partner bodies have been formally accepted. The IJB intends to break-even in 2017/18.
- 6 The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.
- 7 The IJB is working with partners to identify and agree the remaining 2017/18 savings required in order to break-even. Robust plans need to be in place as it is unlikely that further non-recurrent funds will be made available by partners to fund any further pressures.

Governance and transparency

- 8 The IJB has adequate governance arrangements in place that support the scrutiny of decisions by the members.
- 9 The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is ongoing to refine the risk management and review processes within the IJB.

Value for money

- 10 The IJB needs to ensure that it produces an annual performance report in line with the timeline requirements of the Act and that it is relevant to the IJB's operations and presented to members in a timely manner.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of East Lothian Integration Joint Board (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 February 2017 meeting of the Audit and Risk 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 audit of the IJB's 2016/17 annual accounts and
 - the issue of an independent auditor's report setting out our opinions.
4. The IJB is responsible for preparing the annual accounts that show a true and fair view and for establishing effective arrangements for governance which 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. Our annual audit report contains an action plan at [Appendix 1](#) and sets out specific recommendations, responsible officers and dates for implementation.
9. Communication in this report of matters arising from the audit of the annual accounts 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 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 accounts



Main conclusions

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 accounts for the year ended 31 March 2017 were approved by the Board on 12 September 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - unqualified opinions on the remuneration report, management commentary and the annual governance statement.
14. 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 accounts for audit

15. We received the unaudited financial statements on 30 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 it to produce its accounts by 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 reasonable 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 the wider dimension risks, how we addressed these and our conclusions.

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.

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

19. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the annual accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. On receipt of the annual accounts, we reviewed our materiality calculations and re-calculated them based on the figures included in the unaudited accounts.

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.	£1.5 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 professional judgement we have calculated performance materiality at 75% of overall materiality.	£1.2 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 1% of overall materiality.	£15,000

Evaluation of misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit. There were no individual misstatements which exceeded our reporting threshold.

Significant findings

22. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. There are no significant findings arising from the audit of the IJB.

Other Findings

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

Part 2

Financial management



Main conclusions

The Integration Joint Board (the IJB) broke even and spent £153.88m on delivering health and social care services. However both East Lothian Council and NHS Lothian were required to provide additional resources to achieve a break-even position.

In 2016/17 financial assurance reports were presented to the Board. Quarterly budget monitoring reports are due to be presented in 2017/18 which will further assist members in identifying emerging risks.

There was no risk sharing framework in place between the IJB and its partners during the year and there are no plans to formalise this going forward.

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 Finance 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
 - IJB members provide a good level of challenge and question budget holders on significant variances.
- 26.** We reviewed the financial regulations and standing orders, which were created on the formation of the IJB, and we consider these to be appropriate. All completed governance documents are accessible through the East Lothian Council website.

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

27. From attendance at the Board / Audit and Risk Committee meetings, and a review of the associated papers we have concluded that the Chief Finance Officer (CFO) has appropriate status within the IJB. Updates are provided by the CFO to the Board / Audit and Risk Committee and members provide a good level of challenge and scrutiny on the material presented.
28. The Integration Scheme sets out the expectation that as a minimum, quarterly budget monitoring reports showing budget versus forecast outturn for the delegated functions will be provided to the IJB by the partners. The IJB would then use this information to produce its own quarterly reviews. However during 2016/17 no quarterly budget monitoring information was made available for the IJB with the first quarterly report presented to the August 2017 Board. In the absence of the quarterly reports, the CFO was issuing financial assurance papers to the IJB. These updates provided members with details of work undertaken to formally agree funding in the year for IJB delegated services carried out by the partners.
29. The absence of adequate budget monitoring arrangements increases the risk that the IJB will fail to identify and remedy with its partners any projected overspends.

Recommendation 1 (Appendix 1, Action plan point 1)

For 2017/18, the IJB needs to finalise its financial plan based on the actual offers from the partners and ensure that up to date information of performance against budget is reported quarterly to members.

30. The Integration Scheme stipulates that the IJB should develop, with its partners, a risk sharing framework so that accountability for any future overspends is understood and shared by the partners. There was no risk sharing arrangement in place for 2016/17 and we confirmed with the CFO that there will not be one set up for 2017/18 with the objective that the IJB will break-even annually.
31. However, during 2016/17 we noted that the Adult Wellbeing part of the budget from East Lothian Council had an efficiency challenge of approximately £2.3 million and there was no comprehensive plan to wholly meet this. The health part of the budget allocation, excluding set aside, included recognised efficiency challenges of approximately £1 million. In the absence of such a risk sharing framework and given the funding pressures outlined above, there is a risk that accountability for any likely overspends is not clearly set out.

Recommendation 2 (Appendix 1, Action plan point 2)

The IJB should put in place a risk sharing agreement with its partners to ensure that the lines of accountability regarding overspends are clearly set out.

Financial performance in 2016/17

32. The IJB does not have any assets nor does it directly incur expenditure or employ staff, other than the Chief Officer and CFO. All funding and expenditure for the IJB is incurred by the partner bodies (East Lothian Council and NHS Lothian) and processed in the partner accounting records. Arrangements are in place to identify this income and expenditure and report this financial information to the IJB.

33. The year-end outturn position is a break-even position. Total net expenditure for the IJB delegated services in 2016/17 was £153.9 million. A budget summary for the year is shown in [Exhibit 4](#) below.
34. The IJB agreed the 2016/17 budget proposal from East Lothian Council at its March 2016 meeting for an initial budget of £43.8 million. During the year the Council made an additional £1 million available to cover overspends in social care budgets. At year end, the Council had contributed a £595,000 to permit the IJB to achieve a break-even position on delegated social care functions.
35. NHS Lothian submitted a formal funding proposal to the IJB in June 2016. The offer of £86.8 million of funding was approved at the August 2016 meeting of the IJB.
36. Health Board budgets are subject to revision during the year and NHS Lothian provided additional funding in the year of £6.93 million. NHS Lothian also entered into a formal funding arrangement at the end of 2016/17 to cover any overspends in health delegated functions. At year end, NHS Lothian provided additional funding of £1.05 million to the IJB to permit the IJB to achieve an overall break-even position.
37. The final contribution from NHS Lothian was £109.60 million, including £10.4 million for non-cash limited functions not included in the initial offer but required to be reported within the IJB financial statements.

Exhibit 4

2016/17 Budget v Actual Summary

IJB budget objective summary	Budget	Additional funding	Actual outturn
	£m	£m	£m
Funding from NHS Lothian	108.54	1.054	109.60
Funding from East Lothian Council	43.68	0.595	44.28
Total funding	152.22	1.649	153.88
Net expenditure			153.88
Surplus/(deficit)			0
Earmarked reserves			0

Source: East Lothian IJB Financial Update to Board (June 2017)

Internal controls

38. The IJB relies on NHS Lothian and East Lothian Council for its key financial systems such as the ledger and payroll. All transactions are processed through the respective partners' systems and all the controls over these systems are accounted for within these two bodies rather than the IJB.
39. As part of our audit approach and in accordance with ISA 402, we sought assurances from the external auditors of NHS Lothian and East Lothian

Council and confirmed there were no weaknesses in their respective systems of internal control.

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

40. The IJB has a range of activities in place designed to maintain standards of conduct including a Code of Conduct for members. In addition, a register of members' interests is in place for Board Members and senior officers.
41. The IJB does not have its own fraud or whistleblowing policies. It relies on the policies in place at the partner bodies.
42. Based on our review we concluded that the IJB has effective arrangements in place for the prevention and detection of bribery and corruption and we are not aware of any specific issues that we need to record in this report.

Part 3

Financial sustainability



Main conclusions

2017/18 budget proposals from the partner bodies have been formally accepted. The IJB plans to break-even in 2017/18.

The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.

The IJB is working with partners to identify and agree the remaining 2017/18 savings required in order to break-even. Robust plans need to be in place as it is unlikely that further non-recurrent funds will be made available by partners to fund any further pressures.

Financial planning

43. 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.
44. As noted in [paragraph 33](#) the IJB achieved a break-even position in 2016/17. This was achieved by reaching a mutual agreement with the partner bodies to fund any over-spends.
45. The IJB approved the budget for 2017/18 at its meeting on 30 March 2017. The budget included a base allocation of £43.7 million from East Lothian Council and an indicative budget of £95.1 million from NHS Lothian. A formalised offer of £95.2 million from NHS Lothian was approved at the 29 June 2017 meeting of the IJB. 2017/18 levels of funding reflected a £131,000 decrease in base funding from East Lothian Council. The IJB expects to deliver a breakeven position again in 2017/18.
46. The 2017/18 financial assurance process identified £3.8 million of efficiencies that were required. Plans have been developed to achieve £3.3 million savings leaving a gap of £500,000 to be addressed.
47. Budget monitoring will be critical to ensure the IJB achieves the projected break-even position. Partner bodies are unlikely to cover over-spends in 2017/18 and therefore regular monitoring and reporting is crucial to address shortfalls and implement budget recovery plans.
48. The IJB has no formalised process in place for financial planning and budget forecasting for the medium to long term. The Strategic Plan recognises that such planning is of particular importance where there are significant and growing demand pressures driven by demographic and social factors. We recognise that the IJB is currently working with its partners to develop multi-year financial plans but this has its challenges due to funding for bodies only being agreed on an annual basis by the Scottish Government. However this should not prevent the IJB from preparing medium to long term financial plans

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.

based on sensitivity analysis and scenario planning for possible budget changes.

Recommendation 3 (Appendix 1, Action plan point 3)

The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.

Reserves strategy

- 49. The IJB approved its reserves strategy at the Board meeting in March 2016. It outlines the type of reserves the IJB are allowed to hold including unusable reserves (the Employee Statutory Adjustment account required by legislation) and general fund reserves. The reserves policy sets out that the IJB will set the general reserve level at 2% of the IJB revenue budget.
- 50. In 2016/17 the IJB did not have resources to fund the general fund reserve and it is unlikely to occur in 2017/18 with the aim being for the IJB to break-even.
- 51. We are satisfied that the IJB's reserves policy adequately sets out the circumstances in which reserves can be created, and the governance arrangements around their use.

Efficiency savings

- 52. 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.
- 53. The maintenance of a sound financial position going forward is dependent on achieving the efficiency savings to bridge the gap between available funding from current sources and the cost of services.
- 54. In March 2017, it was reported that the 2017/18 financial pressures identified in the financial assurance process were approximately £3.8 million of which plans had been developed for £3.3 million. There remains £500,000 to be addressed. Pressures include £300,000 in the set aside services and £200,000 in social care services. The IJB will need to make efficiency savings to maintain financial balance in 2017/18 and beyond. Reports to the Board for 2017/18 state that it is unlikely that NHS Lothian and East Lothian Council would be able to make any further non-recurrent funds available to support any in-year pressures.

Recommendation 4 (Appendix 1, Action plan point 4)

The IJB need to identify and agree with the partners the remaining 2017/18 savings required in order to break-even. Robust plans need to be in place as it is unlikely that further funds will be made available by partners to fund any further pressures.

- 55. The IJB has a long term plan to redesign the delivery of functions delegated to it in order to reduce the costs of delivery in line with the projected reduction in resources available to the IJB. This is ongoing.

Part 4

Governance and transparency



Main conclusions

The IJB has adequate governance arrangements in place that support the scrutiny of decisions by the members.

The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is ongoing to refine the risk management and review processes within the IJB.

Governance arrangements

56. The IJB was formally established on 27 July 2015 but did not have operational responsibility in the first year for delegated services. These services were delegated to the IJB on 1 April 2016.
57. The IJB has representation from a range of service users and partners including four elected voting members nominated by East Lothian Council and four members from NHS Lothian. The Board meets on a near-monthly basis and in 2016/17 met 10 times.
58. The IJB is responsible for the management and delivery of health and social care services for East Lothian and is supported by an Audit and Risk Committee. The Audit and Risk Committee aims to meet on a quarterly basis however only met twice in 2016/17. We attend and review minutes of Board and Audit and Risk Committee meetings to assess their effectiveness.
59. The IJB is supported in its work by a Chief Officer and a CFO. The Chief Officer provides strategic and operational advice to the IJB while the CFO is responsible for financial management including budget monitoring reports.
60. 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 a review of documentation, discussions with key officers and attendance at committee meetings. From this work we found:
 - Appropriate level of challenge, scrutiny and discussion at both the IJB and Audit and Risk Committee meetings we attended during the year.
 - Processes and support are in place for member training and development to ensure that all members to succeed in their role.
61. We concluded that overall the IJB has adequate governance arrangements in place and they provide a framework for effective organisational decision making.

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.

Internal audit

62. Internal audit provides the IJB and the CFO with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.
63. The IJB appointed a chief internal auditor and this function is provided by East Lothian Council. We carried out a review of the adequacy of East Lothian Council's internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. The chief internal auditor is supported by the partners in carrying out her role.
64. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. We did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. Reliance was placed on internal audit work, however, in respect of corporate governance, financial governance, and performance management.

Risk management

65. We reviewed the risk management arrangements within the IJB to assess their effectiveness and appropriateness during the planning stage of our audit. The Integration Scheme stipulates that the IJB will develop its own risk management strategy separate to that of its partners, setting out the IJB's risk appetite, including, among other elements, procedures for identifying and managing risk.
66. The IJB has not developed its own risk management strategy, and has chosen to rely on the risk management strategy of its partners in developing its own risk register. This raises the risk that the IJB is not in compliance with the Integration Scheme with respect to risk management. It also raises risks that the risk register that has been developed for the IJB will be less effective in capturing and monitoring all of the relevant risks for the IJB.
67. At the February 2017 meeting of the Audit and Risk Committee, the risk register was presented. However we noted there was no covering paper provided to members, individual risks had not been subject to review since June 2016 and the risk register did not identify actions required to reduce/minimise the risks to a tolerable level. The risk management process is still developing for the IJB.

Recommendation 5 (Appendix 1, Action plan point 5)

The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is still to be done to refine the risk management and review processes within the IJB.

Transparency

68. 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.
69. The IJB's purpose and vision are outlined in its Strategic Plan. The plan outlines a number of national and local policies, strategies going forward and the key priorities going forward. The Strategic Plan sets out the actions that the partnership will take and provides a basis for measuring how well they are

doing and how these are linked to the IJB's priorities and the national outcomes.

70. Full details of the meetings held by the IJB and the Audit and Risk Committee are available through the East Lothian Council website and both types of meetings are open to the public to attend. The website also contains a section for the IJB papers and Audit and Risk Committee papers available for downloading/viewing and this is considered good practice as not all public sector bodies offer this level of transparency, particularly when it comes to the Audit and Risk Committee.

Other governance arrangements

71. 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 local planning arrangements enable partners to engage in and support the delivery of the health and social care provision.
72. Overall, we concluded that the IJB conducts its business in an open and transparent manner.

Part 5

Value for money



Main judgements

The IJB needs to ensure that it produces an annual performance report in line with the timeline requirements of the Act and that it is relevant to the IJB's operations and presented to members in a timely manner.

Performance Reporting

73. The Public Bodies (Joint Working)(Scotland) Act requires the IJB to publish an annual performance report by 31 July which must include information about:

- Service planning (performance against the national outcomes, the integration principles and strategic planning)
- Financial planning and performance
- How the IJB has secured best value
- Performance in respect of localities
- Details of the outcomes of any inspections by a scrutiny body
- The outcome of any review of the Strategic Plan

74. During 2016/17, the IJB was developing a framework to monitor performance in the above areas however this was still under development and not ready by 31 July. The CFO provided an update on progress at the February 2017 Audit and Risk Committee and the first annual performance report is due to be submitted to the IJB at its August 2017 meeting.

75. There is a risk that the failure to monitor in-year performance in 2016/17 will lead to the IJB failing to meet some or all of the metrics set out by the Act.

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

Performance management

76. In order to achieve value for money the IJB should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

77. The Public Bodies (Joint Working) (Scotland) Act 2014 (the Act) and the Integration Scheme for the Board set out the legislative changes required to implement adult health and social care both operationally and financially. One of these is in respect of performance management arrangements.

78. The IJB produced two in-year performance reports for 2016/17 with the first considered by the IJB in August 2016 and the second presented in February 2017. The February update presents an analysis for 19 of the 20 National

Indicators (data was not available for indicator 10 at the time of writing the performance report). The report uses a 'RAG' status to demonstrate performance against the Scottish average. Green indicates that the Health and Social Care Partnership has a value of at least 2.5% better than the Scottish average; amber indicates that the performance is within 5% of the Scottish average and red is based on the performance being 2.5% worse than the Scottish average with percentage bands agreed by the Health and Social Care Partnership.

Recommendation 6 ([Appendix 1, Action plan point 6](#))

The IJB needs to ensure that it produces an annual performance report in line with the timescale requirements of the Act and that it is relevant to the IJBs operations and presented to members in a timely manner.

National performance audit reports

- 79.** 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 and these are outlined in [Appendix 3](#).

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Para
no.

Issue/risk

Recommendation

Agreed management
action/timing

28	<p>1. Budget monitoring</p> <p>Quarterly budget monitoring reports were not produced during 2016/17 as per the Integration Scheme.</p> <p>Risk: The absence of adequate budget monitoring arrangements increases the risk that the IJB will fail to identify and remedy with its partners any projected overspends.</p>	<p>For 2017/18, the IJB needs to finalise its financial plan based on offers from the partners and ensure this is reported quarterly to Members.</p>	<p>The IJB is monitoring the 17/18 position closely and has reported the first quarter position and indicative out-turns to the IJB in August 2017. The financial position will be updated on a quarterly basis and the CO and CFO are progressing any required recovery plans with the partners.</p> <p>Action by the CO and the CFO. Quarterly reports.</p>
30	<p>2. Risk sharing framework</p> <p>There is no risk sharing framework in place between the IJB and its partners.</p> <p>NHS Lothian and East Lothian Council were required to provide additional funding in the year in order for the IJB to deliver a break even position.</p> <p>In 2017/18 and future years, in the absence of such funding agreements, the IJB may fail to achieve this break-even position.</p> <p>Risk: In the absence of this framework, and given the funding challenges going forward, there is a risk that lines of accountability for overspends are unclear and go unresolved.</p>	<p>The IJB should put in place a risk sharing framework with its partners to ensure that the lines of accountability regarding overspends are clearly set out.</p>	<p>As above, the IJB will follow the actions to manage overspends as laid out in the Integration Scheme. Having reported the potential for an overspend at to the IJB's August 2017 meeting, the CO and the CFO have requested recovery plans from the partners. The CFO will continue to report this position to the IJB .</p> <p>Action – CFO, updated quarterly.</p>
48	<p>3. Financial Planning</p> <p>The IJB does not have a medium to long term financial plan in place. Despite the IJB being fully funded by partners</p>	<p>The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.</p>	<p>The IJB is working with its partners who will provide it with indicative three year allocations. Having considered the resources available to it</p>



Para no.	Issue/risk	Recommendation	Agreed management action/timing
	<p>who only receive annual funding allocations from the Scottish Government, this should not prevent the IJB from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes.</p> <p>Risk: Issues relating to financial sustainability and planning in the medium to long term are not identified in a timely matter and this could prevent future delivery of key services.</p>		<p>the IJB will prepare a three year financial plan laying out how it will achieve its Strategic Plan. The partners are committed to supporting the IJB in these actions and the CFO and CO have been discussing and preparing these plans working with both the partners and the IJB's Strategic Planning Group.</p> <p>The proposal is to prepare an outline plan by January 2018.</p> <p>Action CFO</p>
54	<p>4. Efficiency savings</p> <p>For 2017/18 the IJB is required to deliver £3.3 million savings with £500,000 yet to be identified. Robust plans need to be in place as it is unlikely that further funds will be made available by partners to fund any further pressures.</p> <p>Risk: The IJB may not be able to deliver the targeted savings in 2017/18 and will not break-even.</p>	<p>The IJB needs to identify and agree the remaining 2017/18 savings required in order to break-even.</p>	<p>As above, the IJB has approached the partners regarding their efficiency and recovery plans and this will be reported as part of the quarterly financial reporting.</p> <p>Action CFO, updated quarterly.</p>
65	<p>5. Risk management</p> <p>The IJB has not developed its own risk management strategy, and has chosen to rely exclusively on the risk management strategy of its partners in developing its own risk register.</p> <p>Risk: The IJB is not in compliance with the requirements of the Integration Scheme with respect to risk management and could consequently be less effective in capturing and monitoring all of the relevant risks for the IJB.</p>	<p>The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is still to be done to refine the risk management and review processes within the IJB.</p>	<p>Agreed.</p> <p>This will be developed with the IJB's Audit and Risk committee.</p> <p>Action, CO and CFO, to be completed by the end of the financial year.</p>
73	<p>6. Performance reporting</p> <p>The annual performance report was not submitted in line with the Act during 2016/17.</p>	<p>The IJB needs to ensure that it produces an annual performance report in line with the requirements of the Act and that it is relevant to the</p>	<p>The Annual performance report was submitted to the IJB for approval at its August 2017 meeting. The report has now been published on the IJB's</p>



**Para
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

Risk: There is a risk that the failure to routinely monitor and report in-year performance could lead to the IJB failing to meet some or all of the metrics set out by the Act as well as failure to address issues as they become known.

IJBs operations and presented to members by 31 July each year.

website.

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 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>Focussed testing of journal entries and accruals.</p> <p>Review of accounting estimates.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Service auditor assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p>	<p>Substantive testing of journals identified no errors.</p> <p>Accounting estimates, where applicable were satisfactory.</p> <p>No significant transactions outside the normal course of business were identified during the audit process.</p> <p>Service auditor assurances were received and were satisfactory.</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 Financial Statements</p> <p>The 2016/17 financial statements will require income, expenditure and year end balances to be agreed with East Lothian Council and NHS Lothian.</p> <p>There is a risk that the procedures for agreeing the year end balances are not fully embedded and that the financial statements are not delivered to the agreed timescale and in the required format.</p>	<p>Continued engagement with officers throughout the year and prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</p> <p>Service auditor assurances obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p> <p>Checked that accounting policies are appropriate and complete.</p> <p>Review of compliance with accounting standards as part of financial statements audit.</p>	<p>There was on going communication with CFO over the preparation of the accounts to ensure relevant information was included within the annual accounts.</p> <p>The IJB met the agreed timetable for the provision of information to the health board and for the preparation of its own annual accounts. The IJB provided information to the health board within the agreed timescale and the IJB accounts were prepared and submitted to audit within the required timetable.</p> <p>Assurances were received from the auditors of East Lothian Council and NHS Lothian. They provided sufficient assurance over the completeness, accuracy and allocation of IJB costs.</p> <p>Compliance with accounting standards and legislation was</p>





















Audit risk	Assurance procedure	Results and conclusions
		<p>assessed during the accounts audit process. No compliance issues were identified.</p> <p>The governance arrangements at the IJB were assessed against legislative requirements.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial sustainability</p> <p>The 2016/17 East Lothian IJB budget allocations agreed with the partners contain significant efficiency challenges, for which comprehensive savings plans have not been agreed. As yet, there has been no formal budget monitoring taking place at IJB level.</p> <p>There is a risk that any overspends arising will not be identified and remedied and will result in a year-end budget overspend for the IJB.</p>	<p>Confirmed levels of funding agreed and received from the funding partners to assess whether budgets have been met.</p> <p>Attend committee meetings and review minutes of meetings to gain assurance over the reporting of budget monitoring papers to Board members.</p>	<p>Budget monitoring was not regularly reported during the year. However, quarterly monitoring reports are planned to be reported to members from August 2017. During 2016/17 financial assurance reports by the CFO were presented to the Audit and Risk Committee. This is reported in Appendix 1, action plan point 1.</p> <p>Overspends against budget were identified for delegated functions delivered by both NHS Lothian and East Lothian Council.</p> <p>Risk sharing agreements with the funding partners resulted in the respective partners providing additional funding, allowing the IJB to achieve a break-even position however we note there is no formal risk sharing agreement in place.</p>
<p>4 Financial sustainability - financial planning</p> <p>The IJB has yet to agree a long-term financial risk-sharing agreement with its partners. For 2016/17, NHS Lothian has agreed to underwrite any overspend of the health element of the IJB budget. An agreement has yet to be reached with East Lothian Council with respect to the current anticipated overspend on Adult Wellbeing.</p> <p>The risk is that in the absence of a financial risk-sharing agreement accountability for any budget overspends will lie with the IJB.</p>	<p>Obtain confirmation of the risk-sharing agreements entered into with the funding partners.</p> <p>Confirm the agreement entered into with East Lothian Council to make available £1m of additional funding to cover potential overspends.</p>	<p>Our audit work included receiving confirmation from funding partners of the risk-sharing agreements that were entered into.</p> <p>The funding partners provided additional funding in line with the risk-sharing agreement allowing the IJB to break-even in 2016/17.</p> <p>This has been reported in Appendix 1, action plan point 2.</p>
<p>5 Financial management</p> <p>The IJB has no formalised process in place for financial planning and budget forecasting from 2017/18</p>	<p>Reviewed and assessed progress towards developing and agreeing a long-term financial plan.</p>	<p>This is still not in place for the medium to long term and has been reported in Appendix 1, action plan point 3.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>onwards.</p> <p>There is a risk that any issues relating to financial sustainability and delivery of the strategic plan in the medium to long-term are not identified sufficiently early to be resolved with partners.</p>		
<p>6 Governance & Transparency</p> <p>The Public Bodies (Joint Working) (Scotland) Act requires IJBs to publish annual performance information in various areas including service planning. The IJB is currently developing a framework for measuring performance.</p> <p>There is a risk that failure to monitor in-year performance in 2016/17 will lead to noncompliance with the Act.</p>	<p>Reviewed and assessed progress towards publishing annual performance information and indicators.</p> <p>Attended committee meetings of the IJB and Board and reviewed Performance Report papers presented to assess progress made.</p>	<p>The Chief Officer reported to committee in June 2017 that the 2016/17 would be considered at the meeting of 24 August 2017.</p> <p>We attended the August 2017 Board meeting where the annual performance report was presented however we have raised a recommendation in Appendix 1, action plan point 6 that the timing of this report needs to be in line and meet the requirements of the Act.</p>

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

East Lothian Integration Joint Board

2016/17 Annual Audit Report

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