

# Moray Integration Joint Board

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Moray Integration Joint Board and the Accounts Commission

28 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

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## 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 Financial reporting throughout the year was not representative of the final outturn position. Financial reporting arrangements should be reviewed to ensure that in-year projections are as accurate as possible and are reconciled to the reported year end position.
- 3 The IJB achieved a surplus of £2.7 million in 2016/17. This is a good position for the first year of operation. It has, however, been achieved by using budgets earmarked for transformation and innovation objectives which were not spent in the first year.

## Financial sustainability

- 4 An indicative 2017/18 budget was approved in March 2017. A revised budget was approved at the end of June 2017 and this was balanced by using reserves. The IJB recognises that this is a one-off solution and that further savings will be required to balance the budget in future years
- 5 It is important that the IJB prioritises long term financial planning to demonstrate financial sustainability and support future developments.

## Governance and transparency

- 6 The IJB has appropriate governance arrangements in place, but Internal Audit arrangements need to be further developed.
- 7 Risk management arrangements are in place and the strategic risk register is reviewed at least annually.
- 8 Overall, we concluded that the IJB conducts its business in an open and transparent manner but we believe that Committee papers could be published on-line more timeously.

## Value for money

- 9 The IJB annual performance report details the IJB's performance against the national outcomes and includes real life case studies.
- 10 The IJB should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on its arrangements to promote continuous improvement and value for money in service provision.

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# Introduction

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**1.** This report is a summary of the findings arising from our 2016/17 audit of Moray 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 April 2017 meeting of the IJB. 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](#).

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## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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**3.** The main elements of our audit work in 2016/17 have been:

- an interim audit of the IJB's governance arrangements
- obtaining service auditor assurances from the auditors of Moray Council and NHS Grampian
- an audit of the IJB's 2016/17 annual accounts.

**4.** The IJB is responsible for preparing 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. Also, our annual audit report contains an action plan at [Appendix 1](#). 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 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](http://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-operation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual 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 accounts for the year ended 31 March 2017 were approved by the Board on 28 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.** 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 accounts for audit

**15.** We received the unaudited financial statements on 30 June 2017, in line with our agreed audit timetable.

**16.** Year-end balances with NHS Grampian were agreed on 12 June 2017. This was late in the consolidation and audit processes for the NHS Grampian accounts. The outstanding balances with Moray Council were not formally confirmed by senior officers of the council. The Integrated Resources Advisory Group guidance suggests that balances and transactions should be confirmed no later than 30 June. Going forward, formal confirmations should be obtained from all parties as part of year end processes.

[Action Plan \(Appendix 1, point 1\)](#)

**17.** 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

**18.** [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 our conclusions.

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

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## Materiality

**19.** 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.

**20.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively. The assessment of materiality was recalculated on the receipt of the unaudited financial statements and is summarised in [Exhibit 2](#).

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## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> - 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.	£1.2 million
<b>Performance materiality</b> - 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 70% of overall materiality.	£0.8 million
<b>Reporting threshold</b> - 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.	£20,000

## Evaluation of misstatements

**21.** There are no misstatements within the financial statements that require to be reported to those charged with governance.

## Significant findings

**22.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

## Exhibit 3

### Significant findings from the audit of the financial statements

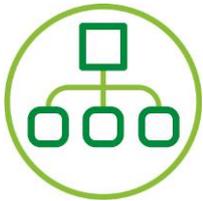
Issue	Resolution
<p><b>1. Hospital Acute Services (Set Aside)</b></p> <p>A notional figure for the 'set aside' for hospital acute services under the control of the IJB has been agreed with NHS Grampian and included in the NHS Grampian and IJB 2016/17 annual accounts. This is based on 2014/15 activities and the levels have been up-rated to reflect the 2016/17 position. The set aside sum recorded in the 2016/17 annual accounts does not, therefore, reflect actual hospital use.</p>	<p>This is a transitional arrangement for 2016/17 that was agreed by the Scottish Government. As a result, we have accepted this disclosure within the 2016/17 annual accounts.</p> <p><a href="#">Action Plan (Appendix 1, point 2)</a></p>

### 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

**Financial reporting throughout the year was not representative of the final outturn position. Financial reporting arrangements should be reviewed to ensure that in-year projections are as accurate as possible and are reconciled to the reported year end position.**

**The IJB achieved a surplus of £2.7 million in 2016/17. This is a good position for the first year of operation. It has been achieved, however, by using budgets earmarked for transformation and innovation objectives which were not spent in the first year.**

### 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
- IJB members provide a good level of challenge and question budget holders on significant variances.

**26.** The Chief Finance Officer was in post throughout the accounting year, and was responsible for ensuring that appropriate financial services were available to the IJB and the Chief Officer. The post holder retired on 30 June 2017 and a new post holder was appointed in August.

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

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

28. The original budget set in March 2016 was £108 million plus £10 million set aside for acute services. During 2016/17, Moray Council was responsible for providing £49 million of IJB services and NHS Grampian £69 million.

29. Budget monitoring reports are prepared quarterly for the Board. [Exhibit 4](#) summarises the forecast year end position reported at the end of each quarter. This demonstrates that the budget monitoring reports presented to the Board did not identify the extent of the year-end underspend that was reported in the audited financial statements (£2.7 million).

## Exhibit 4

### Financial Monitoring reports showing projected outturn for over/underspends

	Core budget forecast (Over)/Underspend £m	Strategic Funds forecast (Over)/Underspend £m	Total year end forecast (Over)/Underspend £m
Quarter 1	(0.1)	-	-
Quarter 2	(1.0)	2.3	1.3
Quarter 3	(1.4)	2.0	0.6
Accounts as at Mar-17	(0.8)	3.5	2.7

Source: Financial Monitoring Reports taken to IJB

30. We recognise that the IJB faces unique challenges in setting and managing its budget, particularly relating to timing differences between the council and health board in approving their own budgets. We also understand that budget projections are subject to variance, and that this has been more challenging for the IJB due to it being the first year of operation. Financial reporting arrangements should, however, be reviewed to ensure that in-year projections are as accurate as possible and that there is a clear link between them and the reported year end position.

#### [Action Plan \(Appendix 1, point 3\)](#)

31. The overall surplus (£2.7 million) has arisen from underspends on efficiency and improvement projects. Only £0.9 million of the £4.4 million budget was spent on these projects, and £0.8 million was used to fund overspends on core services. The remaining £2.7 million has been carried forward in reserves.

### Financial performance in 2016/17

32. The outturn is identified in [Exhibit 5](#). As noted above, the underspend of £2.7 million has been retained by the IJB as reserves to fund future expenditure.

## Exhibit 5

### Budget Summary

IJB budget objective summary	Funding £m	Expenditure £m	Variance £m
NHS Grampian	83.4	72.5	(10.9)
Moray Council	41.2	49.4	8.2
<b>Total Funding / Expenditure</b>	<b>124.6</b>	<b>121.9</b>	<b>2.7</b>
Comprised of:			
Surplus (from NHS Grampian to be retained by the IJB)	-	-	1.4
Surplus (from Moray Council to be retained by the IJB)	-	-	1.3

Source: Final outturn report

**33.** The variance between NHS Grampian and Moray Council funding and expenditure represents resource transfer and other transactions, such as delayed discharge funding, integrated care funding and social care funding, that occur between NHS Grampian and Moray Council. These transactions are not reflected within the IJB annual report and accounts as this would result in double counting.

### Internal controls

**34.** The IJB does not have any financial systems of its own. Instead it relies on the financial systems of the host bodies to record all transactions. The key financial systems which the IJB relies on include general ledger, trade payables, trade receivables and payroll.

**35.** As part of our audit approach we sought assurances from the external auditor of NHS Grampian and Moray Council (in accordance with ISA 402) and confirmed there were no weaknesses in the systems of internal controls for the health board and no weaknesses in the systems of internal controls for the council.

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

**36.** The IJB does not have its own anti-fraud strategy. It places reliance on the strategies of both NHS Grampian and Moray Council. It was found that these policies were effective through the work undertaken at the partner bodies.

**37.** The IJB requires that all members must comply with the Code of Conduct. In addition to this a register of interest is kept for all members of the IJB.

**38.** Based on our review of the evidence, we concluded that the IJB has effective arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that need to be recorded within this report.

# Part 3

## Financial sustainability



### Main judgements

**An indicative 2017/18 budget was approved in March 2017. A revised budget was approved at the end of June 2017 and this was balanced by using reserves. The IJB recognises that this is a one-off solution and that further savings will be required to balance the budget in future years.**

**It is important that the IJB prioritises long term financial planning to demonstrate financial sustainability and support future developments.**

### Financial position

**39.** The IJB allocates the resources it receives from the health board and council in line with the Strategic Plan. As part of the 2017/18 budget preparation, finance staff undertook due diligence work to ensure that the budget was sufficient for the IJB to provide the services as set out in the Integration Scheme.

**40.** In March 2017, the Board approved an indicative budget for 2017/18. This identified a funding gap of £4 million after savings of £1.2 million were taken into account. At the end of June 2017, the Chief Financial Officer presented a revised budget which had been updated to reflect a reduction in budget pressures and savings plans. The budget was balanced by using the reserves resulting from the underspend in 2016/17. The Board approved the revised budget after noting that £1.7 million of reserves had been earmarked for known commitments in 2017/18.

**41.** The IJB recognises that this is a one-off solution and that once spent the strategic funds will not be available either to support recurring funding gaps or transformational projects. Further savings will be required to balance the budget in 2018/19 and beyond.

**42.** The most recent budget monitoring report (as at 30 June 2017) reports an overspend of £0.3 million on the 2017/18 budget. Additional funds totalling £1.5 million have, however, been received via NHS Grampian for specific purposes. These funds are, in the main, non-recurring and so will not be available to help balance the budget in future years.

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.

### Savings plans

**43.** The 2017/18 budget includes savings totalling £0.6 million that require to be achieved in order to balance the 2017/18 budget. These include:

Community Nursing (Staffing)	£0.1 million
Care provided In-House (Efficiencies from site locations)	£0.1 million
Externally Commissioned Services (Ongoing Efficiency Review)	£0.1 million
Primary Care Prescribing (Local Enhanced Services)	£0.1 million

**44.** Progress against implementing the approved savings is due to be reported as part of the quarter 2 budget monitoring report covering the period to 30 September 2017.

### **Medium and long term financial planning**

**45.** There are no financial forecasts or savings plans which look beyond 2017/18 and, therefore, there are no medium to long term financial plans in place. We realise that the IJB is fully funded from the host bodies and that funding from the Scottish Government to these 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 demand and resource assumptions using sensitivity analysis and scenario planning. Longer term financial planning is an area that Audit Scotland has been encouraging in both NHS and Local Government and this should be reflected in the IJB.

[Action Plan \(Appendix 1, point 4\)](#)

### **Reserves strategy**

**46.** At the IJB meeting on 31 March 2016, the Board approved its reserves policy. This allows the IJB to hold reserves, and as noted previously, the 2016/17 underspend has been allocated to reserves. The Board has earmarked £1.7 million of reserves to fund known commitments in 2017/18 and plans to use the remainder to support core service provision in 2017/18.

# Part 4

## Governance and transparency



### Main judgements

**The IJB has appropriate governance arrangements in place, but Internal Audit arrangements need to be further developed.**

**Risk management arrangements are in place and the strategic risk register is reviewed at least annually.**

**Overall, we concluded that the IJB conducts its business in an open and transparent manner but we believe that Committee papers could be published on-line more timeously.**

### Vision

**47.** The vision for the IJB is set out within the Strategic Plan 2016-2019 and is 'To enable the people of Moray to lead independent, healthy and fulfilling lives in active and inclusive communities where everyone is valued, respected and supported to achieve their own goals'.

### Governance arrangements

**48.** The Board consists of six voting members, three each from NHS Grampian and Moray Council. Non-voting members include service user and staff representatives, and the IJB's Chief Officer. The Board is supported in its work by two Committees: the Clinical Care and Governance Committee and the Audit and Risk Committee.

**49.** As part of a wider review of governance arrangements across the public sector, we completed a follow-up of our 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at a Board meeting. Overall we found that the IJB has satisfactory governance arrangements in place. There are a few areas where arrangements could be strengthened. For example we would expect arrangements to be put in place to review the performance of the Chair and board members. This enables feedback to be provided, training needs identified and will help inform the reappointment process.

### Internal audit

**50.** Internal audit provides the IJB Board and the Chief Officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.

**51.** In 2016/17, the internal audit function was carried out separately by the internal auditors of NHS Grampian and Moray Council. As a result, an Annual Report, providing an overall assessment of governance arrangements and the system of internal control, was not prepared by internal audit for the IJB. This has been recognised as an area that needs to be addressed for 2017/18.

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.

**52.** A review of the adequacy of the internal audit function was carried out by the external auditors of the host bodies. We have concluded that the internal audit functions operate in accordance with the Public Sector Internal Audit Standards (PSIAS) and that sound documentation standards and reporting procedures are in place.

**53.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any 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 work.

## **Risk management**

**54.** The IJB agreed its risk policy and established its Strategic Risk Register at the Board meeting in March 2016. The Register is reviewed at least annually, and was last discussed at the Board meeting in June 2017.

**55.** 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.

## **Transparency**

**56.** 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.

**57.** Full details of the meetings held by the IJB are available through the Moray Council website and through the IJB's own website at <http://hscmoray.co.uk/index.html>. At the time of our review, Committee papers were not yet published. It is expected, however, that work to ensure publication of all Board and Committees papers will be completed later in 2017. Board meetings are held in public and future dates are advertised on the website.

**58.** Overall, we concluded that the IJB conducts its business in an open and transparent manner but we believe that Committee papers could be published on-line more timeously.

# Part 5

## Value for money



### Main judgements

The IJB annual performance report details the IJB's performance against the national outcomes, and includes real life case studies.

The IJB should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on its arrangements to promote continuous improvement and value for money in service provision.

### Performance management

**59.** 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.

**60.** The Strategic Plan identifies six strategic priorities that are linked to the Scottish Government's nine health and wellbeing outcomes, together with the six additional outcomes for children and community justice. These are:

- more people will live well in their communities – the population will be responsible for their own health and wellbeing – the community will respond to individual outcomes
- carers can continue their caring role whilst maintaining their own health and wellbeing
- relationships will be transformed to be honest, fair and equal
- invest in a seamless workforce to ensure that skills, competencies and confidence match the needs to enable people to maintain their wellbeing
- technology enabled care considered at every intervention
- infrastructure and redesign.

**61.** During 2016/17, the IJB received performance reports on an ad-hoc basis. The reports set out performance data, on an exception basis, against a suite of 23 core indicators as collated by the Scottish Government. The annual governance statement acknowledges that improvements are required to the IJB's performance reporting and this has been identified as a priority for 2017/18.

**62.** Work is ongoing to review and improve the IJB's performance management arrangements. A Performance Review Group has been established to develop a performance management framework to enable the IJB to demonstrate:

- progress on the delivery of the national health and wellbeing outcomes
- performance information against key indicators and measures

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

- how strategic planning and locality arrangements are contributing to delivering services that reflect integration principles
- the extent to which resources are being moved to support health and wellbeing outcomes.

**63.** A scorecard will also be developed to improve visibility of performance, more easily identify areas where improvements are required, and demonstrate to stakeholders the benefits that are being delivered. The refreshed performance management framework will be presented to the October meeting of the IJB.

**64.** The IJB is required to publish an annual performance report within four months of the year end. The draft annual performance report for 2016/17 was considered at the IJB meeting on 29 June 2017 and published on 31 July 2017. The report details the IJB's performance against the national outcomes, and includes real life case studies.

**65.** Throughout the report, the IJB highlights the challenges it faces, such as the small geographic base together with the scale of the change, the demographic challenges and financial outlook. In particular, the financial challenge resulting from decreased funding, together with an ageing population, is a major area of concern. The IJB recognises the need to consider alternative service delivery models and has been engaging directly with the larger population centres within its area over the summer on these topics.

## National performance audit reports

**66.** 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](#).

**67.** 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.

**68.** Our report was considered by the shadow IJB in January 2016 and six-monthly progress reports are provided to the Board setting out progress made in addressing the recommendations made by Audit Scotland. The next progress report is due to be considered by the Audit and Risk Committee on 28 September 2017.

**69.** We will carry out a second audit in 2018 to look at progress and to follow up on these risks. The audit will also examine changes to the system, including evidence of shifts in service delivery from acute to community-based and preventative services, and of the impact on the lives of local people.

## Best Value

**70.** Local government bodies, including IJBs, have a statutory duty to make arrangements to secure Best Value 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 IJB to secure Best Value in areas such as the financial position, financial management and governance arrangements. We will keep this area under review over our five year audit appointment and will report as appropriate.

[Action Plan \(Appendix 1, point 5\)](#)

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
7	<p><b>1. Confirmation of balances</b></p> <p>Confirmation of the year end debtor balance was received from NHS Grampian by email. Formal confirmation of the debtor balance with Moray Council was not obtained.</p> <p><b>Risk</b></p> <p>Year end balances in the accounts are inconsistent between partners.</p>	<p>The IJB should ensure that balances and transactions are formally agreed at the year end in accordance with timescales agreed with NHS Grampian and Moray Council.</p>	<p>The appointment of an independent Chief Financial Officer and revised working practices will ensure that this is obtained as recommended.</p> <p><b>Responsible officer:</b></p> <p>Chief Financial Officer</p> <p><b>Agreed date:</b></p> <p>Financial year end (exact date to be agreed at accounts closure meeting of partners).</p>
9	<p><b>2. Acute hospital set-aside</b></p> <p>Arrangements for the sum set aside for hospital acute services under the control of the IJB are not yet operating as required by legislation and statutory guidance.</p> <p>A notional figure has been agreed and included in the annual report and accounts. This is based on 2014/15 activity levels uprated to reflect the 2016/17 price basis and does not reflect actual hospital use.</p> <p>This is a transitional arrangement agreed by the Scottish Government.</p> <p><b>Risk</b></p> <p>The sum recorded as set aside for acute services in the annual accounts does not reflect actual hospital use.</p>	<p>NHS Grampian and the IJB should prioritise establishing revised processes for planning and performance management of delegated hospital functions and associated resources in 2017/18.</p>	<p>A way forward will be sought and monitored through Heads of Finance meetings. Scottish Government guidance will be considered once available.</p> <p><b>Responsible officers:</b></p> <p>Chief Officer, Chief Financial Officer and NHS Grampian Director of Finance</p> <p><b>Agreed date:</b></p> <p>To commence in September 2017</p>

Page no.	Issue/risk	Recommendation	Agreed management action/timing
11	<p><b>3. Budget monitoring</b></p> <p>The in-year budget monitoring reports did not forecast the £2.7 million underspend. There were late budget adjustments with final revised budgets being confirmed at year-end.</p> <p><b>Risk</b></p> <p>Budget reports do not provide sufficient information to enable members to review in-year financial performance.</p>	<p>Financial monitoring reports should be reviewed to ensure that they include reliable financial projections and that there is a clear link between in year reports and the year end position reported in the annual accounts.</p>	<p>Work on financial monitoring reports continues with the intent of providing a more informed process for the decision making of the IJB.</p> <p><b>Responsible officer:</b></p> <p>Chief Financial Officer</p> <p><b>Agreed date:</b></p> <p>In progress and to continue through 2017/18</p>
14	<p><b>4. Medium and long term financial planning</b></p> <p>There are no medium to long term financial plans in place. Audit Scotland is encouraging councils and health boards to develop medium and long term financial plans and we expect IJBs to do this too.</p> <p><b>Risk</b></p> <p>The IJB is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p>	<p>We recommend that a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared. This is increasingly important as demand pressures increase, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary. Plans should set out scenario plans (best, worst, most likely).</p>	<p>A medium term financial strategy will be developed and will be integral to the review and update of the Strategic Plan.</p> <p><b>Responsible officers:</b></p> <p>Chief Officer and Chief Financial Officer</p> <p><b>Agreed date:</b></p> <p>31 March 2018</p>
19	<p><b>5. Best Value</b></p> <p>The Board should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.</p> <p><b>Risk</b></p> <p>Opportunities for improvement through Best Value review may be missed.</p>	<p>The IJB should undertake a periodic and evidenced formal review of its performance against the Scottish Government Best Value framework.</p>	<p>Best Value will be addressed in preparation of the 2017/18 Annual Performance Report and reported to the IJB accordingly.</p> <p><b>Responsible officer:</b></p> <p>Chief Financial Officer</p> <p><b>Agreed date:</b></p> <p>Throughout 2017/18</p>

# 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
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></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 accounts.</p>	<p>Detailed testing of journal entries.</p> <p>Service auditor assurances will be obtained from the auditors of Moray Council and NHS Grampian over the completeness, accuracy and allocation of the income and expenditure.</p>	<p>Service auditor assurance was obtained from the auditors of Moray Council and NHS Grampian.</p> <p>The 2016/17 interim governance reports from the auditors of NHS Grampian and Moray Council were reviewed for any issues significant to the IJB.</p> <p>All movements of funds between IJB and partners bodies were confirmed to management accounts and representations by partners bodies.</p>
<p><b>2 Financial statements preparation</b></p> <p>For the first time, the Board will produce financial statements for a full year, which will be more complex than the partial year accounts produced in 2015/16.</p> <p>In addition, the current Chief Financial Officer's appointment will end on 30 June 2017. There is a risk that appropriate succession planning arrangements are not in place to ensure a smooth transition during the accounts preparation and audit processes.</p> <p>There is also a risk that processes for the preparation of the financial statements are not fully established including agreement of all transactions and balances between partner bodies.</p>	<p>Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</p> <p>Service auditor assurances will be obtained from the auditors of Moray Council and NHS Grampian over the completeness, accuracy and allocation of income and expenditure.</p>	<p>The unaudited accounts were submitted on 30 June, in line with the agreed timetable.</p> <p>The Projects Officer who carried out the day-to-day role of monitoring financial transactions engaged fully with the audit process after the retirement of the Chief Financial Officer.</p> <p>Service auditor assurance was obtained from the auditors of Moray Council and NHS Grampian.</p>

Audit risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>3 Financial management and sustainability</b></p> <p>Based on the current budget monitoring (for the period to 31 December 2016) there is a projected overspend of £1.5 million on core services at the year end. Once strategic fund balances are taken into account a small underspend (£0.6 million) is projected. There remains a risk that the IJB will be in a deficit position at the year end and this will have to be distributed to the council and health board.</p>	<p>Ensure budget monitoring is robust and accurately reflects the financial position.</p> <p>Confirmation of agreement of funding and balances with host bodies.</p>	<p>The 2016/17 audited accounts report a surplus of £2.7 million was achieved. Within this overall surplus, core services were overspent by £0.8 million and strategic fund income was underspent by £3.5 million.</p> <p>Budget monitoring reports did not identify the extent of the year-end underspend that was reported in the audited financial statements (£2.7 million). Refer to paragraph 29 and action plan point 3.</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

# Moray Integration Joint Board

## 2016/17 Annual Audit Report

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