

**NORTH AYRSHIRE  
INTEGRATION JOINT BOARD**

(North Ayrshire Health and Social Care Partnership)



Final report to the Members of the Board and the Controller of Audit  
on the 2016/17 audit

14 September 2017

# Contents

---

## 01 Our final report

Director introduction	3
Responsibilities of the Performance and Audit Committee	9
Our audit explained	10
Significant risks	11
Other significant findings	14
Your annual report	15
Wider scope requirements	16
Purpose of our report and responsibility statement	25

---

## 02 National performance reports

National performance reports	26
------------------------------	----

---

## 03 Appendices

Audit adjustments	30
Action plan	31
Fraud responsibilities and representations	32
Independence and fees	33
Events and publications	34

# Director introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Performance and Audit Committee for the 2016/17 audit.

As detailed in our plan presented to the Performance and Audit Committee in March 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits, sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting*

# Director introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### Statutory audit

#### Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - management override of controls; and
  - completeness and accuracy of income.
- A summary of our work on the significant risks is provided in the dashboard on page 11.
- From our work undertaken to date we have not identified any audit adjustments.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

---

#### Insight

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to mitigate the risks of fraudulent activity. As the main transactions are processed through the ledger of either North Ayrshire Council (NAC) or NHS Ayrshire and Arran (NHSAA), the actual number of journals posted to the Integration Joint Board (IJB) are minimal. Insights from our analytics have been noted for management as part of our reporting to the NAC and NHSAA.

---

#### Status of the audit

- Our audit work is now complete

# Director introduction (continued)

## The key messages in this report (continued)

### Best Practice

#### Overall conclusion

- We have reviewed the management commentary with reference to the statutory guidance set out in Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014 and Finance circular 5/2015 (The Local Authority Accounts (Scotland) Regulations 2014 – management commentary). We have confirmed that the management commentary complies with the statutory guidance.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
  - information given in the management commentary is consistent with the financial statements;
  - the management commentary has been prepared in accordance with the statutory guidance;
  - information given in the annual governance statement is consistent with the financial statement; and
  - the annual governance statement has been prepared in accordance with proper practice.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the management commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- We have also audited the auditable parts of the remuneration report and confirmed that it has been prepared in accordance with the Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Financial Sustainability**

Total outturn net expenditure for 2016/17 was £220.266m, which was £3.245m over the approved budget. The overspend, which was largely in relation to social care services, has been carried forward and will need to be recovered by the IJB in future years. This differs from the results reported in the Comprehensive Income and Expenditure Statement as a result of accounting adjustments required to comply with the Code and proper accounting practice.

For 2018/19 and 2019/20, the budget shortfall increases to £24.9m and £39.2m respectively. The Medium Term Financial Plan has set out plans under five key strands to start to bridge the gap, with £15.3m of options identified. In addition, in support of the clear recognition for the need for change, North Ayrshire Council, working with the Partnership, has established a Challenge Fund which will be accessed by the Partnership to undertake Transformation Projects. This fund is jointly funded by the Council and the Partnership and will be used to pilot new models of delivery which will seek to deliver innovative services for the local community, within a community setting, whilst also delivering a service which is financially sustainable going forward.

It is positive to note the work done to date on the medium term financial plan and the Challenge Fund, therefore it is critical that this is progressed to realise the savings in future years. The most up to date financial position for 2017/18 has highlighted a potential closing deficit of £8.110 million. It is therefore also critical that the Board agree and implement mitigating actions as a matter of urgency to address this and ensure that services are delivered within the resources delegated.

We recommend that the IJB considers from a Board wide perspective the case studies on page 19, which highlights the lessons learned from our wider health transformation work in the sector including our work on increasing productivity and cost reduction.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Financial Management**

We have reviewed internal audit reports issued in the year, both for the IJB itself and from the two partner bodies and from our testing throughout the audit, we note that the IJB has adequate systems of internal controls in place.

Budget setting reflects the delivery of services by the two parent entities and takes into consideration a number of factors including: legislative requirements, additional funding from the Scottish Government and cost pressures such as living wage requirements.

Responsibility for maintaining an effective system of internal financial control rests with the Chief Financial Officer. The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management and supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by NHS Ayrshire and Arran and North Ayrshire Council as part of the operational delivery of the Health and Social Care Partnership.

The Finance Team is lead by the Chief Financial Officer (CFO) who has worked in local government for a number of years. The CFO is supported by the finance teams at both NHSAA and NAC. We are satisfied that the team has a strong and in depth understanding of the Board.

Both partner bodies have appropriate fraud procedures, which details the steps to follow in the event of a fraud. They also participate in the National Fraud Initiative (NFI). The IJB has appropriate arrangements in place for the prevention and detection of fraud and corruption.

While the IJB reported an overall overspend for 2016/17, this was regularly reported to the Board throughout the year in the management accounts. A similar position is emerging in 2017/18, with a projected overspend of £4.865 million. The Board therefore need to ensure that when the Medium Term Financial Plan is updated, that the assumptions which underpin the budget are reflective of demand, taking into account the funding available to deliver services. The Board should also assess the effectiveness of operational budget management to secure delivery of services within the budget which has been set. We are comfortable with the arrangements in place for detecting fraud.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Governance and transparency**

The IJB has governance arrangements that are appropriate and operating effectively. It is transparent in its decision making with reports discussed at Board meetings being made available on-line along with the minutes of the meetings. The Board meets monthly to review the performance (both financial and non-financial) of the IJB. From review of the board meeting minutes, we note there is scrutiny and challenge by both executive and non-executive members of the IJB.

Internal audit is provided by the Chief Internal Auditor of North Ayrshire Council. The internal audit plan for the year was agreed by the Performance and Audit Committee, and reviewed by the Board, with the aim of providing assurance over the adequacy, efficiency and effectiveness of the local governance, risk management and internal control framework. Internal Audit concluded that the systems of internal control relied upon by the IJB continue to provide reasonable assurance against loss.

#### **Value for money**

The Performance and Audit Committee self-evaluates through the performance reports, which are reviewed on a quarterly basis.

The overall approach adopted is that performance management is integral to the delivery of quality and effective management, governance and accountability. The need for transparent and explicit links of performance management and reporting within the organisational structure at all levels is critical. There is a framework of measures which clearly link the five strategic priorities with the nine national health and wellbeing outcomes.

From review of the 2016/17 annual performance report, the IJB can be seen to be improving overall.

Financial Monitoring reports review savings plans and detail progress and any remedial actions which are to be taken.

**Pat Kenny**  
Audit Director



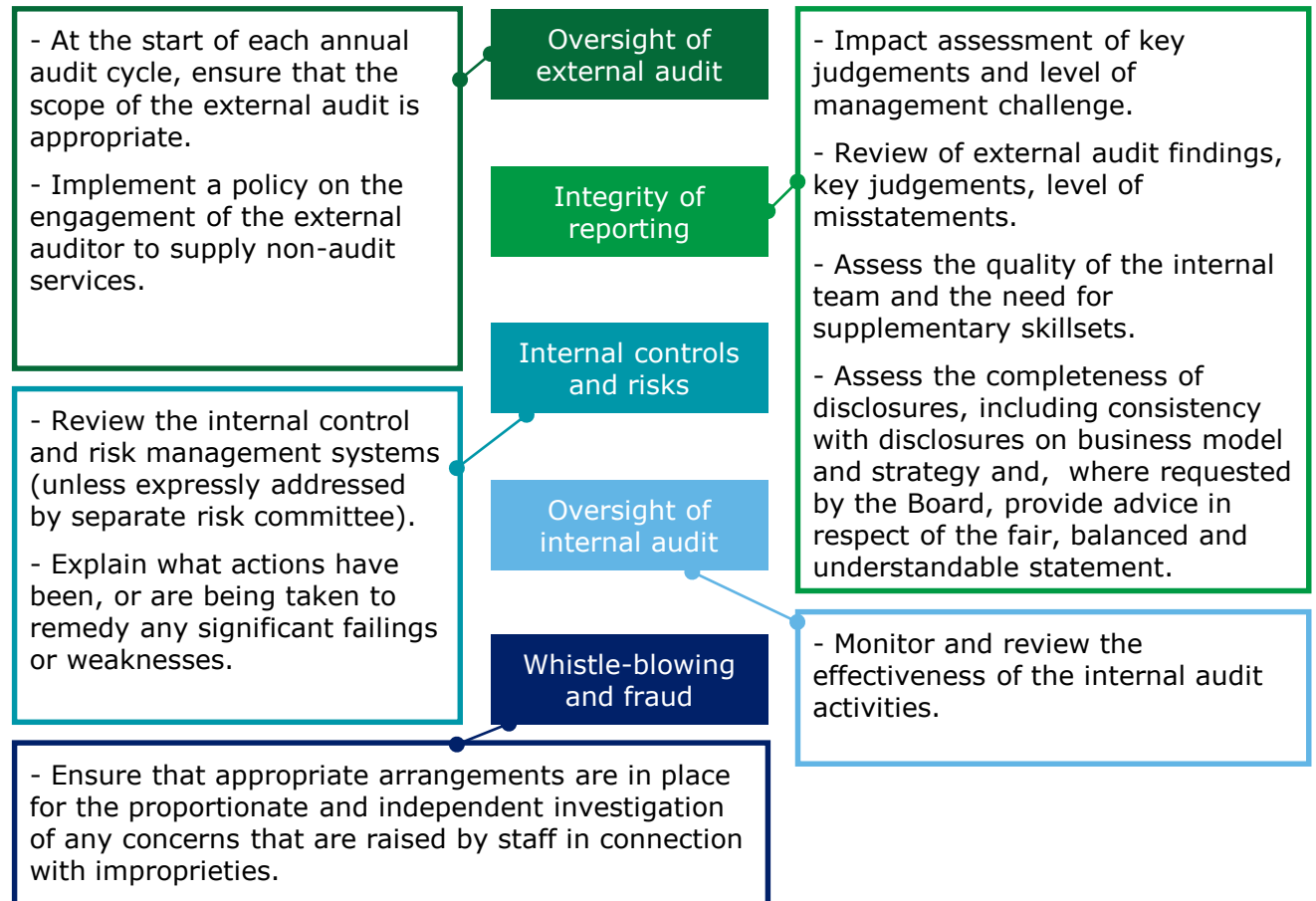
# Responsibilities of the Performance and Audit Committee

## Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Performance and Audit Committee:

- Clearly communicate the planned scope of the financial statements audit.
- Provide timely observations arising from the audit that are significant and relevant to the Performance and Audit Committee's responsibility to oversee the financial reporting process.
- In addition, we seek to provide the Performance and Audit Committee with additional information to help them fulfil their broader responsibilities.

As a result of regulatory change in recent years, the role of the Performance and Audit Committee has significantly expanded. We set out here a summary of the core areas of Performance and Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Performance and Audit Committee in fulfilling its remit.



# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions, being:

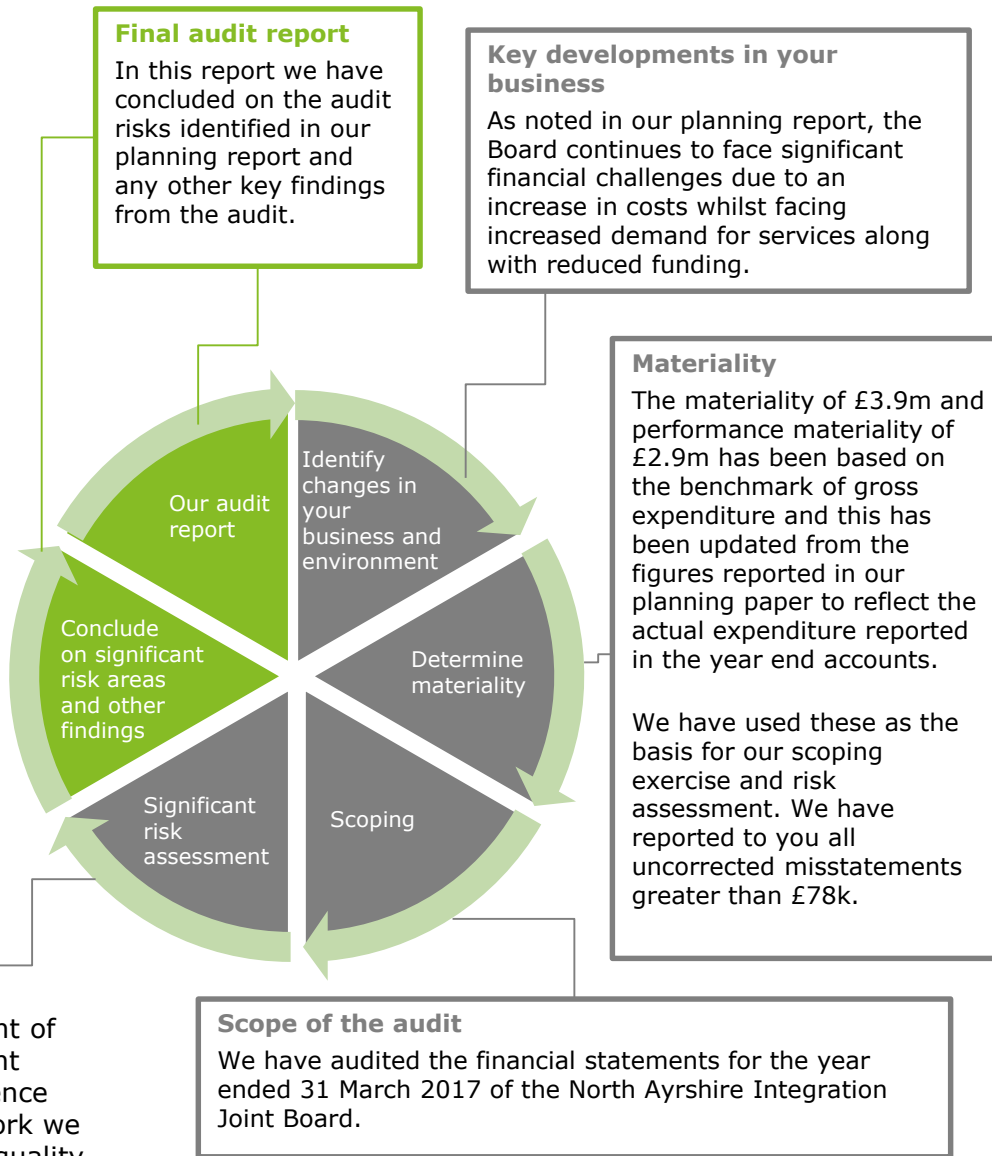
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 11 provides a summary of our risk assessment of your significant risks.

## Quality and Independence







We confirm we are independent of North Ayrshire Integration Joint Board. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



## Timeline 2017



# Significant risks Dashboard

Risk	Material?	Fraud risk identified?	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Completeness and accuracy of income			D+I	Satisfactory		No issues identified	12
Management override of controls			D+I	Satisfactory		No issues identified	13



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Completeness and accuracy of income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

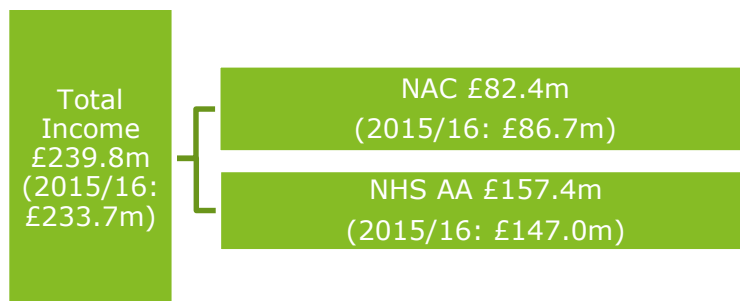
The main components of income for the Board are contributions from its funding partners, namely North Ayrshire Council and NHS Ayrshire and Arran. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the NHS and the Council.



### Our Audit Approach

We have performed the following:

- Tested income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any discounts or reductions have been appropriately applied;
- Compared income recorded with expectations, based on amounts agreed as part of the budget process;
- Confirmed the managements accounts performed during 2016/17 have been reviewed on a regular basis to monitor the income due from the constituent authorities; and
- Assessed management's controls around recognition of income.



### Deloitte view

We have concluded that income has been recognised correctly in accordance with the requirements of the Local Authority Code of Audit Practice.

# Significant risks (continued)

## Management override of controls

### Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Budgeted against actual income and expenditure was monitored closely throughout the year, consistently projecting an overspend; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management or any examples of management overriding controls.
- The control environment is appropriate for the size and complexity of the Board.

### Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

As the main transactions are processed through the ledger of either NAC or NHSAA, the actual number of journals posted to the IJB is minimal. Insights from our analytics have been noted for management as part of our reporting to the NAC and NHSAA.

### Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

# Other significant findings

## Internal control and risk management

ISA 315.12 (UK and Ireland) requires we obtain an understanding of internal control relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. We do not test those controls we do not consider relevant to the audit. Below we provide a view, based on our audit procedures, on the effectiveness of your system of internal control relevant to the audit risks that we have identified.

Given the Board is again projecting an overspend in 2017/18 after ending 2016/17 with a deficit position, the budgetary control arrangements should be reviewed to ensure that the assumption which underpin the budget are reflective of demand, taking into account the funding available to deliver services.

Requires significant improvement

Acceptable but could be improved

No issues noted

Recognising the relative early stage of the Board, we were pleased to note that many of the financial management disciplines and controls, operating in the Council and NHS are also operating for the Board. We also noted that there was evidence of the Board governance function and that the Board had been subjected to internal audit review.

### Deloitte view

In our view, financial management, governance and general control in the Board is of a reasonable standard, however, improvements can be made to the budgetary management system to ensure that the assumption which underpin the budget are reflective of demand, taking into account the funding available to deliver services.

# Your annual report

We welcome this opportunity to set out for the Audit & Performance Committee our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

---

	Draft Annual Report	Deloitte response
Management Commentary	The Management Commentary comments on national health and wellbeing outcomes, operational review and financial performance in line with issued guidance. The commentary included both financial and non financial KPIs and makes good use of graphs and tables.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. No exceptions noted.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chair, Vice Chair and Senior Employees of the Board.	We have audited the disclosures of remuneration and pension benefit, and pay bands for all Senior Employees of the Board. No exceptions noted.
Annual Governance Statement	The Annual Governance Statement reports that the IJB's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

---

# Wider scope requirements

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



### Areas considered

- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made



### Deloitte response

We have monitored the Board's actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term (5-10 years) financial strategy and if investment is effective.

We have also assessed the Board's performance in undertaking transformational change, reliance on reserves and achievement of savings targets.

### Deloitte view

As with all IJBs, North Ayrshire IJB has challenging savings targets to meet moving forward to continue to be financially sustainable.

It is positive to note the work done to date on the medium term financial plan and the Challenge Fund, therefore it is critical that this is progressed to realise the savings in future years. The most up to date financial position for 2017/18 has highlighted a potential closing deficit of £8.110 million. It is therefore critical that the Board agree and implement mitigating actions as a matter of urgency to address this and ensure that services are delivered within the resources delegated.

We recommend that the IJB considers from a Board wide perspective the case studies on page 19, which highlights the lessons learned from our wider health transformation work in the sector including our work on increasing productivity and cost reduction.



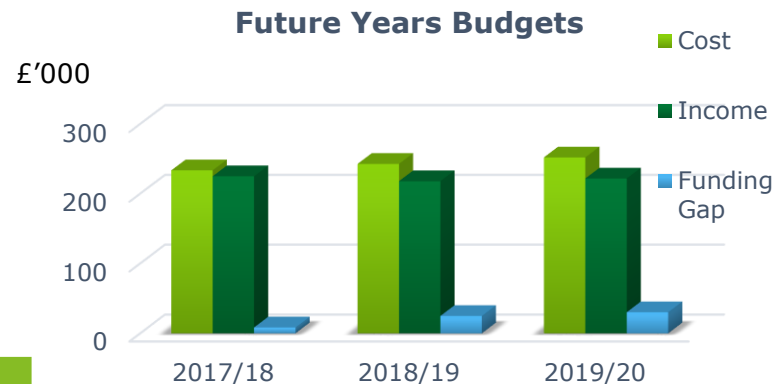
# Wider scope requirements (continued)

## Financial sustainability (continued)

### Short to Medium-term

The Medium Term Financial Plan (MTFP) was approved by the Board in March 2017, which included an approved budget for 2017/18 of £233.3 million. This incorporated savings of £9.8 million to deliver a balanced budget. For 2018/19 and 2019/20, the budget shortfall increases to £24.9 million and £39.2 million respectively.

	2017/18 £'000	2018/19 £'000	2019/20 £'000
Transformation programme – Service redesign	1.350	0.475	1.719
Transformation programme – Shift in the Balance of Care	0.312	3.463	0.575
Efficiency savings	3.192	0.317	0.189
Prevention and early intervention	0.000	0.092	0.096
Lead Partnership Mental Health Recovery Plan	1.292	0.000	0.000
Continued wait listing in services to manage spend within available resources	2.222	0.000	0.000
<b>Total</b>	<b>8.368</b>	<b>4.347</b>	<b>2.579</b>



The Partnership has recognised that the funding gap over the next three years is challenging, but despite this, recognise this as a real opportunity to change things for the better. Plans have therefore been developed over the medium term to start to bridge the gap, along five main strands as summarised in the table.

This has identified £15.3 million of options which will start to address this gap. Of this, £8.4 million relates to 2017/18. While there is a significant reliance on wait listing in 2017/18, we note that this is a short term measure and is not planned for future years.

# Wider scope requirements (continued)

## Financial sustainability (continued)

### Update as at August 2017

We note from the most recent monitoring reports to the Board in relation to the 2017/18 financial position that there is a projected overspend of £4.865 million if mitigating action is not taken. This, together with the deficit position brought forward from 2016/17 (as discussed on page 20), could result in a closing deficit of £8.110 million.

An update on the savings incorporated within the 2017/18 budget was also reported which noted the following:

BRAG Status	2017/18 Savings – Projected Position
Red	£1.974m
Amber	£2.119m
Green	£1.774m
Blue	£0.359m
<b>Total</b>	<b>£6.226m</b>

£0.678 million of amber savings and £0.230 million of red savings have been assumed to be achieved in the projected outturn. If these are not achieved, the projected outturn referred to above will increase.

It is critical that the Board agree and implement mitigating plans to address this deficit as a matter of urgency in order to achieve a balanced position for 2017/18.

In addition, plans for future years need to be agreed working in partnership with both the NHS and the Council to ensure savings plans are met and budgets are delivered within the resources delegated.

#### Challenge Fund

In support of the clear recognition for the need for change, North Ayrshire Council, working with the Partnership, has established a Challenge Fund which will be accessed by the Partnership to undertake Transformation Projects. This fund is jointly funded by the Council and the Partnership and will be used to pilot new models of delivery which will seek to deliver innovative services for the local community, within a community setting, whilst also delivering a service which is financially sustainable going forward. The total fund available will be £4 million, with £1.4 million being funded by the Partnership.

From the most recent monitoring report, £0.992 million of savings are expected to be achieved in 2017/18 as a result of Challenge Fund projects.

# Wider scope requirements (continued)

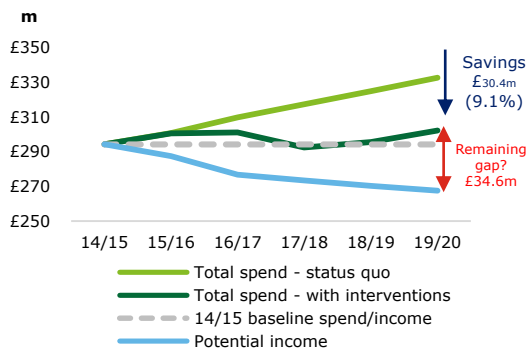
## Financial sustainability (continued)

### Case Studies

Deloitte has been involved in cost reduction work with a number of NHS bodies. We recommend that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

#### Early Intervention

A case study was carried out on an organisation which had an early intervention programme and assisted living service within local communities. We estimated the benefits that might be possible from the programme, looking forward at the financial position on a “do nothing” baseline and then applying assumptions around reductions in activity based on best practice evidence available. We were then able to advise on the make up of the programme and make recommendations on the best approach to delivering the projects and on the governance structures and resourcing required to enable the programme to achieve its ambitions.



From this work we estimated that the programme could deliver £30m in savings as illustrated in the following diagram, which should at the same time improve outcomes.

We recommend that the Board consider applying a similar analysis to help identify how best to target its work on interventions and to deliver better outcomes from the new pooled budgets. We can provide further details on this if required.

#### Agency Cost Reduction

We undertook a review of nurse rostering practices for an NHS client with the aim of reducing premium agency use as well as bank expenditure.

This involved a ward by ward review of rostering protocols working with all lead nurses which highlighted a range of issues for the Board to address, including how best to use data from rostering systems, issues associated with ward performance statistics as well as opportunities to tighten up internal cost controls.

The work was delivered by a team with both nursing and operational management experience to make sure our recommendations and insight were relevant and bespoke to the NHS.

# Wider scope requirements (continued)

## Financial management

### Audit dimension

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

### Areas considered



- Systems of internal control
- Budgetary control system
- Financial capacity and skills
- Arrangements for the prevention and detection of fraud

### Deloitte response



We have reviewed internal audit reports in relation to their work on the key financial controls, including reports for NAC and NHSAA.

We have reviewed the budget and monitoring reporting to the IJB during the year to assess whether financial management and budget setting is effective.

Our fraud responsibilities and representations are detailed on pages 30.

The final outturn for 2016/17 was an in-year deficit of £3.245 million, which is due to be paid to North Ayrshire Council.

The Board's Comprehensive Income and Expenditure Statement reported expenditure against income as shown in the table below.

	2016/17 Budget (£000)	2016/17 Actual (£000)	Variance (Fav)/Adv (£000)
Community Care & Health	59,664	60,982	1,318
Mental Health	69,752	70,544	792
Children's Services & Criminal Justice	31,027	32,289	1,262
Primary Care	48,095	47,929	(166)
Management & Support Costs	4,825	5,083	213
Change Programme	3,458	3,284	(174)
Lead Partnership & Set Aside	200	200	-
<b>Total</b>	<b>217,021</b>	<b>220,266</b>	<b>3,245</b>

### Deloitte view

While the IJB reported an overall overspend for 2016/17, this was regularly reported to the Board throughout the year in the management accounts. A similar position is emerging in 2017/18, with a projected overspend of £4.865 million as discussed on page 18. The Board therefore need to ensure that when the Medium Term Financial Plan is updated, that the assumptions which underpin the budget are reflective of demand, taking into account the funding available to deliver services. The Board should also assess the effectiveness of operational budget management to secure delivery of services within the budget which has been set. We are comfortable with the arrangements in place for detecting fraud.

# Wider scope requirements (continued)

## Governance and transparency

### Audit dimension

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.

### Areas considered



- Governance arrangements
- Scrutiny, challenge and transparency on decision making and financial and performance reports
- Quality and timeliness of financial and performance reporting

The membership of the Board is split into; members nominated), professional advisors (i.e. Nurses, Chief Officer, Chief Finance Officer, Public Health Consultants), stakeholder members which cover representatives of both sides and additional local members. As such, we would consider there to be sufficient diversity to provide effective balance and scrutiny in leadership.

### Deloitte response



We have reviewed the financial and performance reporting to the Board during the year as well as minutes of the Performance and Audit Committees to assess the effectiveness of the governance arrangements. Our attendance at Performance and Audit Committees also inform our work in this area.

Evidence has been identified of the Performance and Audit Committee's review of key aspects of the Boards activities and performance.

Appropriate Governance arrangements exist and we have obtained evidence of Board and Management scrutiny and challenge relating to the Financial and performance management of the Board.

#### Deloitte view

We confirm that we have reviewed the governance arrangements, the level of scrutiny, challenge and transparency of decision making and the quality and timeliness of financial and performance reporting and have identified no issues in this regard.

We have no concerns around the arrangements with internal audit. We have reviewed the reports issued by internal audit and considered the impact of these on our audit approach.

# Wider scope requirements (continued)

## Governance and transparency (continued)

### Internal Audit

North Ayrshire Council's Chief Internal Auditor provides the Internal Audit function for North Ayrshire IJB. Internal Audit concluded that "the system of internal control relied upon by the IJB continue to provide reasonable assurance against loss".

In the year the following specific internal audit reviews were conducted:

**Governance arrangements** "All the expected governance arrangements for the IJB are in place, although some are still developing. Arrangements for Risk Management appear to be in hand, but the IJB has not yet received a Strategic Risk Register". We have confirmed that this was subsequently approved by the Board in March 2017.

**Organisational development** "The Health and Social Care Partnership has undertaken a great deal of work in Organisational Development in its first year of existence. They laid out a clear and detailed Organisational Development Plan and have completed, or at least made progress against, all of the actions in the plan. The Organisational Development plan has been varied and included IJB members, staff at all levels and partners such as providers, voluntary organisations and patients' and carers' groups. There are plans to update the plan and review it on a cyclical basis".

### Leadership

We note there were no significant changes in Leadership in the year. However, in May 2017 a new Chair and Vice Chair of the Board were elected following the local government election. The new Chair, Stephen McKenzie, was previously the Vice Chair during 2016/17.

# Wider scope requirements (continued)

## Value for money

### Audit dimension

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

### Areas considered



- Value for money in the use of resources
- Link between money spent and outputs and the outcomes delivered
- Improvement of outcomes
- Focus on and pace of improvement

### Deloitte response



An accountable officer has a specific responsibility to ensure that arrangements have been made for the Board to secure Best Value, including arrangements for scrutinising performance and holding partner organisations to account.

Financial monitoring and performance reports are submitted four times a year to the Board. These reports include progress in achieving savings and performance targets. Reporting in this regard cover all required indicators and assess them on a traffic light system of green, amber and red.

### Deloitte view

The overall approach adopted is that performance management is integral to the delivery of quality and effective management, governance and accountability. The need for transparent and explicit links of performance management and reporting within the organisational structure at all levels is critical. There is a framework of measures which clearly link the five strategic priorities with the nine national health and wellbeing outcomes.

The Board had a performance management framework in place, with performance regularly considered by management, and the Board.

We are satisfied that the performance is appropriately disclosed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

# Wider scope requirements (continued)

## Value for money

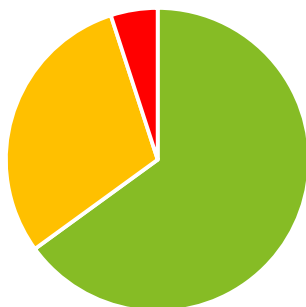
### Overview of performance targets in 2016/17

The board's performance against its targets and standards is reported within its Annual Performance Report 2016/17. This reports how the Board has measured its performance in relation to:

- Scottish Government National Health and Wellbeing Outcomes
- Childrens' and Criminal Justice Outcomes
- Local Measures

The chart below summarises the status of the local indicators monitored to help evidence the National Health and Wellbeing outcomes and the Strategic Priorities. One indicator is flagged as red, which is in relation to care at home capacity lost due to cancelled hospital discharges (shared target with acute hospital services). The impact of integration is also being measured using a suite of indicators, which are summarised below showing long term trends.

Status of local indicators



Long Term Trend



### Best Value audit work

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period.

The Best Value audit work carried out within this year focussed on North Ayrshire Council's arrangements, including the IJB, for demonstrating Best Value in financial and service planning, financial governance and resource management.



# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the Performance and Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you with the planning report.

This report has been prepared for the Performance and Audit Committee and Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

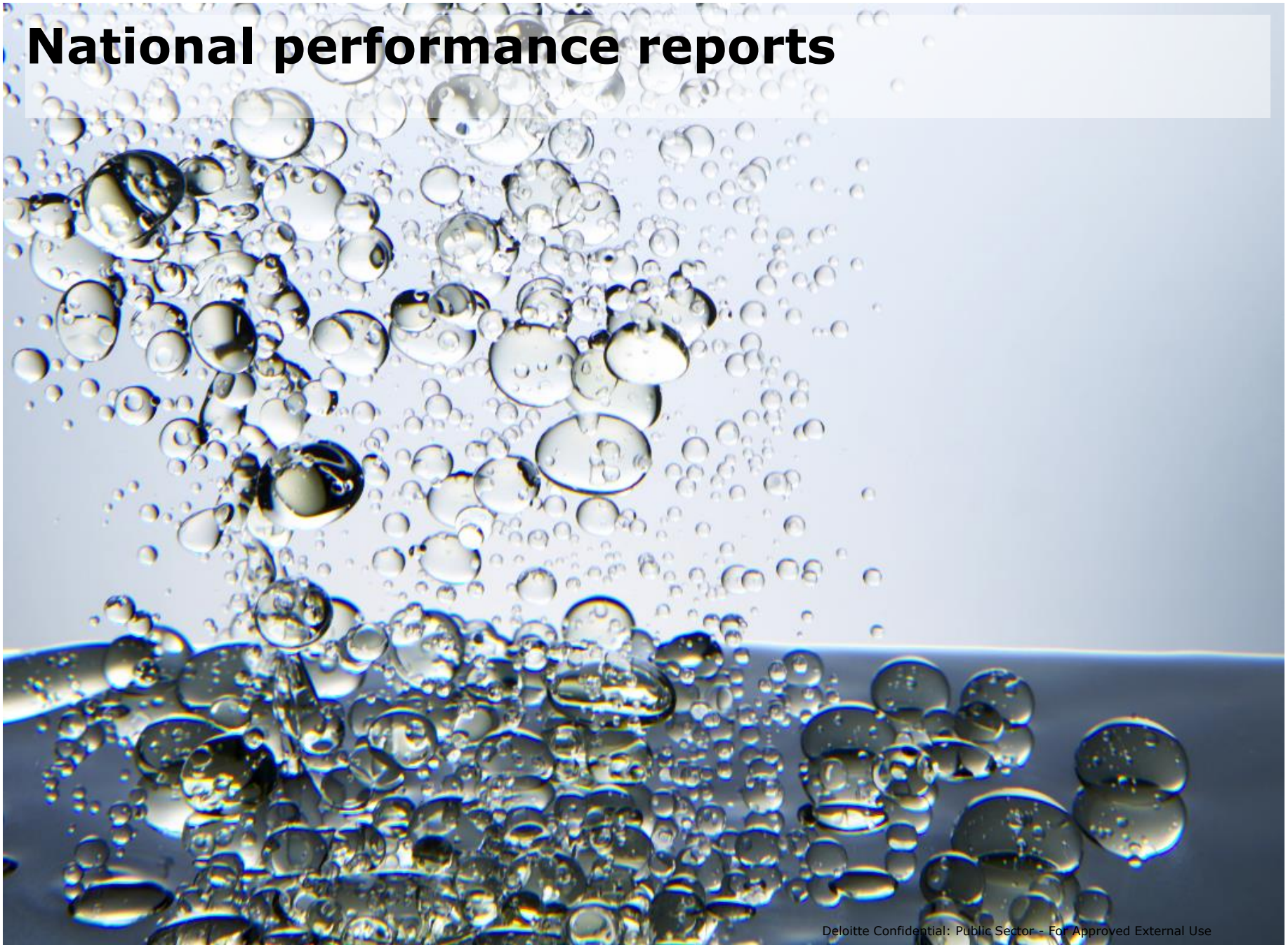


**Deloitte LLP**

Glasgow

5 September 2017

# National performance reports



# National performance reports

## Summary of reports issued over the past year

### **NHS Scotland 2016**

Published October 2016

#### **Headline messages**

A combination of increasing costs, staffing pressures and unprecedented savings targets mean that Scotland's NHS boards are finding it difficult to balance demand for hospital care with investing in community-based services to meet future need.

#### **Impact on North Ayrshire IJB**

In partnership with NHS Ayrshire and Arran, the IJB should take ownership of changing and improving services in their local area, working with relevant partner organisations.

In addition, they should work with the public about the need for change in how they access, use and receive services and to take more responsibility for looking after their own health and managing their long-term conditions.

### **Local Government in Scotland: Financial Overview 2015/16**

Published November 2016

#### **Headline messages**

Councils have remained within their overall budgets, increased their reserves slightly and reduced their debt in 2015/16. Each Council has its own particular challenges but all Councils face financial shortfalls requiring further savings or using reserves. They need to change the way they work if they are to make the savings needed.

#### **Impact on North Ayrshire IJB**

Throughout the report, Audit Scotland identify questions that Councillors may wish to consider to help them better understand their Council's financial position and to scrutinise financial performance. These are available in the self assessment tool for Councillors. This is equally relevant for members of the Integration Joint Board to help them better understand the Board's position.

# National performance reports (continued)

## Summary of reports issued over the past year (continued)

### Local Government in Scotland: Performance and Challenges 2017

Published March 2017

#### Headline messages

Councils overall have maintained or improved their performance in the face of a long-term decline in Scottish Government real term funding and continued increasing pressures on services. However, public satisfaction is declining and complaints are increasing. Looking ahead, they need to better involve their communities in service design and delivery.

There are wide variations between Councils. Some have grasped the nettle in finding new ways to provide services more efficiently. Others have been slower off the mark. Councils have made savings by cutting jobs but half of them still don't have organisation-wide workforce plans.

#### Impact on North Ayrshire IJB

The IJB should consider the recommendations made in the report (copied here for reference), when setting priorities and budgets for future periods.

#### Recommendations

##### IJBs should:

- Set **clear priorities** supported by **long-term strategies** and **medium-term plans** covering finances, services, performance and workforce. These plans should inform all IJB decision-making, service redesign, savings and investment decisions.
- Ensure that **budgets are clearly linked** to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year.
- Have an **organisation-wide workforce plan** to ensure the IJB has the people and skills to manage change and deliver services in the future.
- Ensure **workforce data** allows thorough analysis of changes to the workforce at an organisation-wide and departmental level. This will allow IJBs to better assess the opportunities and risks in staff changes.
- Thoroughly **evaluate all options for change and service redesign**, including options for investing to save, and monitor the impact of change on IJB priorities and desired outcomes
- **Support communities** to develop their ability to fully participate in setting IJB priorities and making decisions about service redesign and use of resources.
- Ensure **members** get support to develop the right **skills and knowledge** to fulfil their complex and evolving roles
- Ensure there is clear **public reporting of performance** linked to IJB priorities to help communities gauge improvements and understand reduced performance in lower priority areas.
- Continue to work to understand the **reasons for variations in unit costs and performance**, and **collaborate** to identify and adopt good practice for each other.



# Appendices



# Audit adjustments

## Corrected misstatements

- No corrected misstatements have been identified from our audit work performed.

## Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed.

## Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Board if anything arises from any outstanding work before financial statements are signed.

# Action plan

## Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Medium Term Financial Plan	The Board should ensure that when the Medium Term Financial Plan is updated, that the assumptions which underpin the budget are reflective of demand, taking into account the funding available to deliver services.	The Medium Term Financial Plan is being updated to cover 2018-19 to 2020/21. All assumption will be reviewed as part of this refresh.	Chief Financial Officer	31 March 2018	High
Financial Management	The Board should assess the effectiveness of operational budget management to secure delivery of services within the budget which has been set.	A review of operational budget management will be undertaken focused in high risk areas and the outcome will be reported to the Performance and Audit Committee.	Chief Financial Officer	31 January 2018	High

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We will ask the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Performance and Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

### Deloitte view:

From our year-end audit procedures and discussions with management we have noted no cause for concern around the arrangements in place for fraud detection.





# Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
<b>Fees</b>	<p>The audit fee for 2016/17 is £22,434 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



# Events and publications

## Our events and publications to support the organisation

### Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

### Perspectives: Health & Social Care - The great integration challenge

Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here:

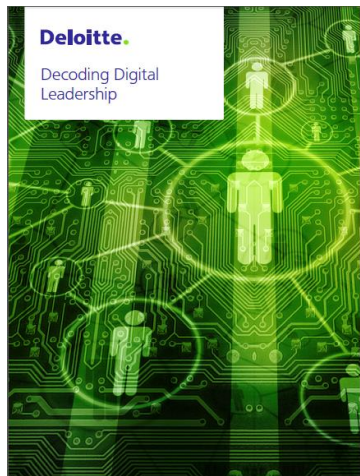
<http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html>

### Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

### Publications



### Decoding Digital Leadership Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



This document is confidential and it is not to be copied or made available to any other party. Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability Board registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.