

# Western Isles Integration Joint Board

2016/17 Annual Audit Report



 AUDIT SCOTLAND

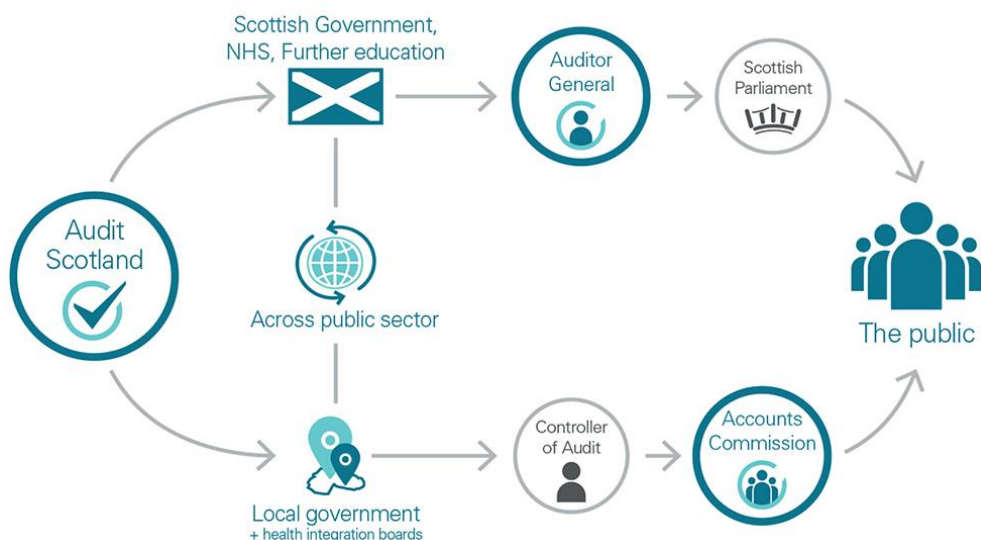
Prepared for the Western Isles Integration Joint Board and the Accounts Commission

21 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 should be reviewed to ensure it accurately reflects a projected year end position.
- 3 The IJB achieved an underspend of £3.1 million in 2016/17. This is a strong position for the first year of operation. The underspend has been retained by the IJB with £1.6 million being earmarked for use in 2017/18.

## Financial sustainability

- 4 The 2017/18 budget was approved on 22 June 2017. The financial projections for 2017/18 are forecasting a breakeven position although recognising significant challenges ahead.
- 5 For 2017/18 the Board is required to deliver £1.5 million savings of which £0.5 million are considered high risk. The Board may not be able to deliver the required savings for 2017/18.
- 6 It is important that the IJB prioritises long term financial planning to demonstrate financial sustainability and support future developments.

## Governance and transparency

- 7 The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board.
- 8 Risk management arrangements have been finalised and are now being implemented with regular reporting to committee.

## Best value

- 9 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
- 10 The IJB performed below the Scottish average in 7 out of the 10 national core integration indicators. In particular, Western Isles is a significant outlier in respect of performance on delayed discharges.

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# Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Western Isles Integration Joint Board, hereby referred to as 'the IJB'. The report is divided into sections which reflect our public sector audit model.

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit Committee. It comprises an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public sector audit requirements as illustrated in [Exhibit 1](#).

## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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

- an interim audit of the IJB's governance arrangements
- obtaining service auditor assurances from the auditors of the Comhairle nan Eilean Siar (CNES) and NHS Western Isles (NHSWI).
- an audit of the IJB's 2016/17 annual accounts and the issue of an independent auditor's report setting out our opinions.

4. The IJB is responsible for preparing the annual accounts that show a true and fair view and, for establishing effective arrangements for governance, which enable them to successfully deliver their objectives.

5. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supplementary guidance, and are guided by the auditing profession's ethical guidance.

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

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

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

9. Communication in this report of matters arising from the audit of the annual 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 will be approved by the Board on 21 September 2017. We reported, within our independent auditor's report:

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

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

#### Submission of annual accounts for audit

15. We received the unaudited financial statements on 19 June 2017, in line with our agreed audit timetable. Assurance letters were received from the service auditors for both NHSWI and CNES. This provided assurance over both the expenditure and income transactions associated with the IJB as well as the operation of their controls since the IJB does not have any financial systems of its own.

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

#### Risks of material misstatement

17. [Appendix 2 \(page 18\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider dimension risks, how we addressed these and conclusions.

#### Materiality

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

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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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19. 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](#)

## 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.	£0.55 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 60% of overall materiality.	£0.33 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 1% of overall materiality.	£6,000

### Evaluation of misstatements

20. There were no material adjustments to the unaudited financial statements arising from our audit which had an impact on the unaudited annual report and accounts.

### Significant findings

21. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. There was nothing to report with regards to this.

### Other Findings

22. 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 should be reviewed to ensure it accurately reflects a projected year end position.**

**The IJB achieved an underspend of £3.1 million in 2016/17. This is a strong position for the first year of operation.**

**The underspend has been retained by the IJB with £1.6 million being earmarked for use in 2017/18.**

### Financial management

23. 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.

24. 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 provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

25. The Chief Finance Officer was in post throughout the accounting year and is responsible for ensuring that appropriate financial services are available to the IJB and the Chief Officer.

26. Board members receive monthly financial monitoring reports via email, as well as a quarterly report presented at the Board Meeting. The financial monitoring reports are clear and concise, outlining expenditure against budget in the delivery of the range of health and social care services described within the IJB's strategic plan.

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

27. As detailed in Exhibit 3, the IJB was forecasting a small underspend in its financial reporting to period 7, with a projected overspend of £0.3 million forecast at period 10. The audited accounts at the year end disclosed a surplus on the provision of services for the year of £3.1 million. An analysis of this surplus is set out in paragraph 32.

### Exhibit 3

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

	Year end forecast £m
July 2016 (period 4)	(0.2)
October 2016 (period 7)	(0.1)
January 2017 (period10)	0.3
<b>Accounts as at March 2017</b>	<b>(3.1)</b>

Source: Financial Monitoring Reports taken to IJB

28. The surplus of £3.1 million includes £1.6 million of accumulated Health and Social Care reserves transferred from CNES. Although a number of reports went to the Board detailing how these accumulated reserves would be committed, financial monitoring reports presented to the Board during 2016/17 did not take into account the transfer of accumulated reserves from the council, when projecting the year-end result. Consequently, the value of the year end surplus was not clear until the unaudited annual accounts were presented to the Board in June 2017.

29. We recognise 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. This should not, however, prevent management from presenting a best estimate of the projected year-end position to the Board throughout the year.

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

### Financial performance in 2016/17

30. 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 is incurred by partners' bodies and processed in their accounting records. Satisfactory arrangements are in place to identify this income and expenditure.

31. The Integration Scheme and financial regulations set out arrangements between the partners to address how over and under spends are dealt with. Any underspend realised at the year end will be transferred to reserves. If this causes the IJB to exceed the level of reserves it has been agreed it can hold (£1.5m) then any surplus will be returned to the parties based on each party's proportionate share of their payments to the IJB for the year, regardless of the circumstances of the underspend.

32. The budget and outturn are summarised in [Exhibit 4 \(page 11\)](#). The in year underspend of £1.5 million has been retained by the IJB, which is in line with their

reserves policy. In addition to this, £1.6 million was transferred from CNES from previous years' Health and Social Care reserves, which has been held for earmarked projects in line with the IJB's objectives.

## Exhibit 4

### Budget Summary

IJB budget objective summary	Budget £m	Actual £m	Variance £m
NHS Western Isles	38.356	38.150	0.206
Comhairle nan Eilean Siar	20.255	19.018	1.237
Total Net Expenditure	58.611	57.168	1.443
Surplus (from NHSWI to be retained by the IJB)	0.00	0.206	0.206
Surplus (from CNES to be retained by the IJB)	0.00	1.237	1.237
Additional transfer of CNES Reserves	0.00	1.631	1.631

Source: Western Isles Integration Joint Board

## Internal controls

33. The IJB does not have any financial systems of its own. Reliance is placed upon the systems of the parent bodies for all transactions recorded. Key financial systems include the general ledger, payroll, trade payables and trade receivables.

34. As part of our audit approach we sought assurances from the external auditor of NHSWI and CNES (in accordance with ISA 402) and confirmed there were no material weaknesses in the systems of internal controls.

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

35. The IJB does not have its own anti-fraud strategy but relies on the strategies of both NHSWI and CNES. We concluded that these strategies were effective through the work undertaken at the parent bodies.

36. It is a requirement of the IJB that all members and staff must comply with the Code of Conduct. A register of interest is also kept for all members of the IJB.

# Part 3

## Financial sustainability



### Main judgements

The 2017/18 budget was approved on 22 June 2017. The financial projections for 2017/18 are forecasting a breakeven position although recognising significant challenges ahead.

For 2017/18 the Board is required to deliver £1.5 million savings of which £0.5 million have been deemed high risk. The Board may not be able to deliver the required savings for 2017/18.

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

### Financial planning

37. The IJB allocates the resources it receives from the health board and comhairle in line with its Strategic Plan. Due diligence was undertaken by both CNES and NHSWI, to consider the sufficiency of the 2016/17 budget provided for the IJB.

38. The 2017/18 budget was approved on 22 June 2017. The financial projections for 2017/18 are forecasting a breakeven position although recognising significant challenges ahead. A number of efficiency savings have been identified and ways in which these savings can be made have been outlined to the Board

### Reserves strategy

39. The IJB was established under section 106 of the Local Government (Scotland) Act 1973 and is classified as a local government body for accounts purposes. It is therefore permitted to hold reserves.

40. Reserves are an integral part of the IJB's financial sustainability. A reserves strategy was approved by the Board in March 2017. Unallocated reserves will be held by the IJB as a working balance to cushion the impact of uneven cash flows; as a contingency to mitigate the impact of unexpected events or emergencies; and as a means of building earmarked reserves to meet known or predicted liabilities.

41. When determining the level of reserves to be held by the IJB, consideration was given to the strategic, operational and financial risks facing the IJB in the medium term and the Board's overall approach to risk management. Based on the size and scale of the IJB, the Board has set a maximum level of unallocated reserves of £1.5 million.

42. The IJB holds £3.1 million reserves of which £1.6 million is earmarked to cover specific projects. The unallocated balance (£1.5 million) is at the permitted maximum level.

43. As outlined in paragraph 32, the earmarked reserves consist of £1.6 million reserves transferred from CNES which have mainly been built up over a number of

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.

years from the Integration Fund/Change Fund. Although a number of reports went to the Board detailing how these accumulated reserves would be committed, the balance remained constant during the year. We have recommended that a detailed review of Earmarked Reserves should be undertaken as part of the Board's overall approach to financial planning.

*Action Plan (Appendix 1, point 2)*

## Efficiency savings

44. A total funding gap of £1.5 million has been identified for 2017/18 to be met by savings proposals of £1.5 million which are outlined within the report taken to the IJB meeting in March 2017. These proposals include:

- the redesign of dental services (£0.3 million)
- saving of 1% on CNES pay budgets (£0.2 million)
- 1% reduction in Health sickness absence (£0.2 million).

45. A further thirty five savings proposals, none of which exceed £130,000, provide the remaining £0.8 million.

46. The report also outlines that £0.5 million (30%) of the savings proposals are high risk. These include; reduce drug costs (£0.1 million), invest in group based support for people with learning disabilities (£0.1 million), and repatriate mainland placements (£0.1 million). The report acknowledges that the proposed savings may not be achieved in their entirety.

47. Like many IJB's Western Isles faces a significant funding gap for 2017/18. It has developed savings options to meet the gap which have been agreed by the Board. The IJB also holds £1.5 million unallocated reserves which are available to meet emerging pressures. Based on these factors, the IJB has the capacity to meet its current commitments in the short term

48. A Budget Strategy 2017-2019 has been prepared by the IJB which includes some financial planning scenarios prepared as part of the NHSWI Local Delivery Plan and CNES budget setting process. The strategy sets out assumptions about the likely pressures that will emerge and the efficiency measures which will be introduced over that period, the service choices which may have to be made, the options for generating additional income, and the areas of transformation that will drive financial sustainability into the local system. In addition, an Investment Strategy was agreed by the Board in December 2016 which sets out the broad strategy to 2020/21 for investing the change funds passed to the IJB to support the redesign of health and social care.

49. There is no integrated medium to long term financial plan in place for the IJB. We acknowledge that the IJB is fully funded from both host bodies and that funding from the Scottish Government to these organisations is on a year-on-year basis. However, this should not preclude the IJB from preparing medium to long term financial plans based on sensitivity analysis and scenario planning. Longer term financial planning is an area that Audit Scotland has encouraged in both NHS and Local Government and this should also be reflected in the Integrated Joint Board

*Action Plan (Appendix 1, point 3)*

## Workforce planning

50. The IJB relies on the workforce plans of the parent bodies. During 2016/17 Internal Audit carried out a workforce review for CNES and while issues were raised, it is clear that the Comhairle is making efforts to resolve these. The auditors of NHSWI reported that the body faces a number of workforce challenges.

Including an increasing spend on agency staff, an ageing workforce and an increase in vacancy rates.

51. The IJB's strategic plan deliverables (refer to paragraph 74) include a commitment to develop a three year workforce plan which will consider how best the partnership can compete within the local, national and international labour market and grow the workforce from within its communities. This is an area which we will continue to monitor in 2017/18.

# Part 4

## Governance and transparency



### Main judgements

The IJB has appropriate governance arrangements in place

Risk management arrangements have been implemented with regular reporting to committee.

The IJB conducts its business in an open and transparent manner

### Vision and values

52. The vision for the IJB is set out within the Strategic Plan 2016-2019. The IJB's vision is for the people of the Western Isles to be living longer, healthier lives at home, or in a homely setting by 2020. Also, that they will have an integrated health and social care system, which focuses on preventing ill-health, anticipating care needs and supporting recovery.

### Standards of conduct and arrangements for the prevention and detection of fraud

53. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. The IJB uses the financial systems of CNES and NHSWI and so anti-fraud arrangements in respect of these financial systems is the responsibility of these organisations. The IJB is alert to any instances of fraud in the host systems.

54. We are satisfied that the IJB has adequate arrangements in place for the prevention and detection of fraud, although it is acknowledged that no system can eliminate the risk of fraud entirely.

### Governance arrangements

55. The IJB was formally established in September 2015, however did not become fully operational until 1 April 2016. The Board is responsible for the strategic planning, management and delivery of the health and social care services delegated to it in line with the Integration Scheme between its two partner bodies.

56. The Board has 20 members and is comprised of eight voting members: four elected members from CNES and four Non-Executive Directors from NHSWI, as well as a number of professional members and stakeholder representatives. Non-voting members comprise six professional advisers; the Chief Social Work Officer, the Chief Officer of the IJB, the Chief Finance Officer, a registered nurse employed by the NHS Board, a General Medical Practitioner; and a medical practitioner who is not a GP. The IJB also appointed stakeholder members who are non-voting members. These include; two staff side representatives working within an

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.

integrated function, two representatives of the third sector, a service user, and an unpaid carer.

57. The Board is supported in its work by an Audit Committee, as well as its Chief Officer and Chief Financial Officer.

58. During the year we carried out a review of the Role of the Board as part of the wider review of governance arrangements across the public sector. This will inform the follow-up of Audit Scotland's 'Role of Boards' national report, published in September 2010. We concluded that:

- there is effective scrutiny and challenge of decisions by members
- voting and non-voting members understand and observe their respective roles and responsibilities
- members receive sufficient training, tailored to their needs, including an introductory presentation outlining the function of the IJB and members' roles and responsibilities; and periodic development sessions and ongoing training and support are available to members.

56. In addition, we carried out a minute review of all Board and Audit Committees as well as attending meetings throughout the year to form a judgement on the effectiveness of the Board and Committee and the level of scrutiny of information.

57. Based on the work we have undertaken and knowledge of the IJB, we are satisfied that the governance arrangements in place at the IJB are sound and support good governance and accountability.

## Internal audit

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

60. The IJB's internal audit function is carried out by the internal audit department of CNES. During our planning stage, we carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

61. 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, however we did consider their work throughout the year for any potential impact on our work. There were no issues identified by internal audit that have had an impact on our audit of the IJB's annual accounts.

## Risk management

62. The IJB's Risk Management Strategy was approved by the Board at its meeting in May 2016. Risk management updates are provided to the Board on a quarterly basis.

63. 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

64. 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.



65. Full details of the meetings held by the IJB are available through its website where access is given to all committee papers and minutes of meetings. Members of the public are permitted to attend and observe meetings. Public notice of each meeting is given on the council's website.

66. Overall, we concluded that the IJB conducts its business in an open and transparent manner but we believe that improvements could be made in financial monitoring reports (refer to our findings in Financial Management section of this report).

### **Other governance arrangements**

67. The IJB's Corporate Management Team, draws together directors from NSWI and CNES, the Chief Officer, Chief Finance Officer and is co-chaired by the two Chief Executives.

68. The senior management structure under the Chief Officer includes five direct reports: the Associate Medical Director; the Dental Director; the Head of Mental Health; and then two Head of Service general management posts, The Chief Officer has confirmed that two of the posts in the senior management tier have still to be formally agreed by NSWI and CNES, and the remainder have been formally agreed but are not yet operational.

69. The Section 95 role of the Chief Financial Officer has not been reflected in an up to date job description. Given that the post holder has been undertaking the role for a significant period of time, this should have been agreed by the parent bodies prior to the appointment. This issue was highlighted by internal audit in its 2016/17 follow-up review of due diligence and governance arrangements and an up to date job description outlining the responsibilities and Section 95 role of the Chief Financial Officer will shortly be implemented.

70. The IJB is committed to ensuring the involvement of partner groups including community planning groups, the third sector, the independent sector and local communities. The IJB's overarching strategic plan enables partners to engage in and support the delivery of the health and social care provision.

# Part 5

## Value for money



### Main judgements

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.

Western Isles performed below the Scottish average in 7 out of the 10 national core integration indicators. In particular, Western Isles is a significant outlier in respect of performance on delayed discharges.

Redesigned performance reporting arrangements will be implemented from 2017/18 onwards.

### Performance management

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

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

73. The Strategic Plan identifies three 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:

- Quality of care
- Health of the population
- Value and financial sustainability

74. Within these priorities, known as “The Triple Aim”, there are twelve priority areas. These give rise to twenty-five key deliverables, detailing the actions planned to make the changes happen.

75. The IJB has been establishing performance reporting measures throughout 2016/17 in preparation for implementation in 2017/18. Reporting will consist of three main areas:

- presentation on performance from the Chief Officer including those not explicitly within the strategic plan

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

- an assessment on the effectiveness of the work being done in line with the strategic plan to achieve positive patient experiences
- a comprehensive balanced scorecard which measures performance against national and local indicators.

76. We will monitor the progress of the IJB in implementing these arrangements moving forward.

77. The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. Guidance highlights that the report should cover areas including; assessing performance in relation to national health and wellbeing outcomes, financial performance and best value, reporting on localities, inspection of services, and a review of the strategic commissioning plan.

78. The annual performance report 2016/17 was submitted to the IJB board meeting in June 2017. This summarised the IJB's performance in relation to the nine national wellbeing outcomes, and measured its performance against the national core integration indicators.

79. For survey based national outcome indicators, the report explains that data is currently only available to 2015/16 for the 10 indicators derived from the annual Care Experience and Staff survey. Of these, eight are positive for Western Isles compared to Scottish levels with one indicator at the national level (staff who say they would recommend their workplace as a good place to work at 69%) and one indicator lower than the national level (percentage of adults supported at home who agree that they had a say in how their help, care or support was provided, at 77%, compared with 79% for Scotland overall).

80. For Administrative/System derived National Integration Indicators, Western Isles performed below the Scottish average in 7 out of the 10 (70%) national core integration indicators.

81. The two indicators where performance was furthest below the national average were: number of days people (75+) spend in hospital when they are ready to be discharged (rate per 1000) (*Western Isles – 2,194 per 100,000; Scottish average – 842 per 100,000*) and; rate of emergency bed days for adults (per 100,000) (*Western Isles – 159,045 per 100,000; Scottish average – 119,649 per 100,000*).

82. The IJB acknowledge that Western Isles is a significant outlier in respect of performance on delayed discharges and an action plan has been developed over the course of the year in order to address this issue. Under the action plan, significant work has gone into working with the clinical and care leads at an operational level to change culture and practice. In 2017/18, Audit Scotland will work together with the Care Inspectorate to assess the position and progress being made by partners to manage delayed discharges.

## National performance audit reports

83. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the Board. These are outlined in [Appendix 3 \(page 22\)](#) accompanying this report. The IJB reviews and considers national reports and where appropriate includes these in committee papers.

84. 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.

85. 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 for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people.

### **Best Value**

86. 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.

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

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

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement



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no.

Issue/risk

Recommendation

Agreed management  
action/timing

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#### 1 Financial forecasts

Financial monitoring reports presented to the Board during 2016/17 did not take into account the expected creation of reserves or the transfer of accumulated reserves from the council, when projecting the year-end result. Consequently, the value of the year end surplus (£3.1 million) was not clear until the unaudited annual accounts were presented to the Board in June 2017

While we recognise that year end projections are subject to error, the Board should be informed of the best estimate of financial position.

#### Risk

Board reports may not provide sufficient information to allow members to review financial performance and make informed decisions.

Financial reports should be revised to ensure they are accurately reflecting the projected year end position.

A new monitoring regime has been introduced with performance being reviewed by finance officers, Integrated Corporate Management Team and the Board.

Chief Finance Officer

31 October 2017

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#### 2. Reserves

Earmarked reserves consist of £1.6 million of accumulated Health and Social Care reserves transferred from CNES. Although a number of reports went to the Board detailing how these accumulated reserves would be committed, the balance remained constant during the year.

A detailed review of earmarked reserves should be undertaken as part of the Board's overall approach to financial planning and the purpose and expected timescale of each reserve identified.

A detailed review of reserves has been undertaken in July 2017 and a report on the purpose of the reserves in total will be presented to the Board in September. Once agreed by the Board an expected timescale for completion for each project will be worked up.

Chief Officer

31 December 2017



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no.

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**Risk**

Without a clearly defined purpose and timescale, there may be ambiguity over the application of earmarked reserves.

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**3. Medium to Long term Financial Plans**

A Budget Strategy 2017-2019 has been prepared by the IJB and an Investment Strategy was agreed by the Board in December 2016 which sets out the broad strategy to 2020/21 for investing the change funds passed to the IJB. There are however no integrated 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.

**Risk**

The IJB is not planning adequately over the medium to long term to manage or respond to significant financial risks.

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)

Work is underway in preparing detailed 3 year plans with funding scenarios, this will form part of the IJBs Long Term Strategy.

Chief Officer/Chief Finance Officer

28 February 2018

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**4. Best Value**

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.

**Risk**

Opportunities for improvement through Best Value review may be missed.

The IJB should undertake a periodic and evidenced formal review of its performance against the Scottish Government Best Value framework.

The Chief Officer will report to the Integrated Joint Board on IJB's performance against the Scottish Government Best Value framework.

Chief Officer

31 March 2018

# Appendix 2

## Significant audit risks identified during planning





















The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual 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 financial statements.</p>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Service auditor assurances will be obtained from the auditors of CNES and NHSWI</li> </ul>	<p>Testing on journal entries was carried out by the external auditors of CNES and NHSWI. Satisfactory conclusions were received through written assurances from each respective body.</p> <p>There were no issues identified.</p>
<p><b>2 Financial statements preparation</b></p> <p>The 2016/17 financial statements will require income, expenditure and year end balances to be agreed with Western Isles Council and NHS Western Isles. There is a risk that the procedures for agreeing the year end balances are not fully embedded and that the financial statements are not delivered to the agreed timescale and in the required format.</p>	<ul style="list-style-type: none"> <li>Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</li> <li>Service auditor assurances will be obtained from the auditors of the Comhairle and NHSWI over the completeness, accuracy and allocation of the income and expenditure.</li> </ul>	<p>The financial statements were prepared in line with the Code and the required disclosures in the accounts were made.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>3 Budget Overspends</b></p> <p>Based on the current budget monitoring (for the period to 31 October 2016) there is a projected underspend of £0.102 million. However, there are currently a number of overspends in high risk areas.</p>	<ul style="list-style-type: none"> <li>Ensure budget monitoring is robust and accurately reflects the financial position</li> <li>Confirmation of agreement of funding and balances with host bodies.</li> </ul>	<p>A final outturn position of a £3.1 million underspend was achieved for the year. Financial reporting throughout the year was not representative of the final outturn position. A point relating to this has been raised in the action plan at Appendix 1.</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



# Western Isles IJB

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