

Moray Integration Joint Board

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Moray Integration Joint Board and the Controller of Audit
27 September 2018

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

2017/18 annual report and accounts

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

Financial management and sustainability

- 2 The IJB has made improvements to the quality of financial monitoring reports and has effective budget monitoring arrangements in place.
- 3 In 2017/18 the IJB used reserves of £1.9 million, leaving a reserves balance of £0.8 million, which will be used in 2018/19 to meet part of the budgeted shortfall.
- 4 The IJB has been unable to present a balanced budget for 2018/19, with a funding shortfall of £3.1 million. A recovery plan will need to be agreed with NHS Grampian and Moray Council.
- 5 A five-year initial financial outlook has been prepared but the IJB has still to develop detailed medium and long term financial plans to demonstrate financial sustainability and support future developments.

Governance, transparency and value for money

- 6 Overall, the IJB has appropriate governance arrangements.
- 7 The annual performance report was not published in line with the timescales set out in the Regulations, and omitted information about financial performance analysed by locality.

Introduction

1. This report is a summary of our findings arising from the 2017/18 audit of Moray Integration Joint Board, (the 'IJB').

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Committee meeting on 29 March 2018. This report comprises the findings from the main elements of our work in 2017/18 including:

- an audit of the IJB's 2017/18 annual accounts including issuing an independent auditor's report setting out our opinions
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The IJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

4. The IJB is responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the IJB's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. 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.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £24,000, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to the IJB by increasing insight into, and offering foresight on financial sustainability, risk and performance and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both the IJB and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

13. 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 2017/18 annual accounts



Main judgements

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

Audit opinions on the annual accounts

14. The annual accounts for the year ended 31 March 2018 were approved by the IJB on 27 September 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary, and annual governance statement were all consistent with the financial statements and properly prepared in accordance with proper accounting practices.

15. Additionally, we have nothing to report in respect of misstatements in the other information presented with the financial statements, the adequacy of accounting records or the information and explanations we received.

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

Submission of annual accounts for audit

16. We received the unaudited annual accounts on 28 June 2018 in line with our agreed audit timetable. The working papers provided with the unaudited annual accounts were of a good standard and finance staff provided good support to the audit team which helped ensure the audit process ran smoothly.

Risks of material misstatement

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

Materiality

18. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

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. On receipt of the unaudited financial statements we reviewed our planning materiality and concluded that the materiality levels required only minor adjustment. These are shown in [Exhibit 2](#).

Exhibit 2

Materiality values

| Materiality level | Amount |
|-------------------------|--------------|
| Overall materiality | £1.3 million |
| Performance materiality | £650,000 |
| Reporting threshold | £25,000 |

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

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

21. The findings include our views about significant qualitative aspects of the IJB's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual report and accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of the financial statements

| Issue | Resolution |
|---|---|
| <p>1. Notice of public right to inspect and object to accounts</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 require that the notice of public right to inspect and object to the accounts is published on the IJB's website no later than 17 June. A notice was published by Moray Council that included the IJB and the accounts were available at the council offices and on the IJB's website as part of the Board papers. However, the IJB did not publish the public notice on its website in accordance with section 9 (3c) of the regulations.</p> | <p>The notice of public inspection was published but was not repeated on the IJB's website. The notice of public right to inspect and object to accounts should be published on the IJB's website in 2018/19.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p> |

How we evaluate misstatements

22. There were no material adjustments to the unaudited financial statements arising from our audit that require to be reported to those charged with governance.

Good practice in financial reporting

23. The Chief Financial Officer has taken steps to improve the annual accounts and reflect good practice as set out in the Audit Scotland good practice note on '[Improving the quality of local authority accounts – integration joint boards](#)'. Examples in the management commentary of in year operational performance including the 'Boogie in the Bar' initiative provide good illustrative examples of the innovative work the IJB is doing.

Follow up of prior year recommendations

24. We have followed up actions previously reported and assessed progress with implementation. These are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

25. In total, five agreed actions were raised in 2016/17. Overall, the IJB has made reasonable progress in implementing these actions, with four actions being fully implemented. For those actions not yet implemented, revised responses and timescales have been agreed with management in [Appendix 1](#).

Part 2

Financial management and sustainability



Main judgements

The IJB has made improvements to the quality of financial monitoring reports in 2017/18 and has effective arrangements, which provide timely and reliable information for monitoring financial performance.



In 2017/18 the IJB used reserves of £1.9 million, leaving a reserves balance of £0.8 million, which will be used in 2018/19 to meet part of the budgeted shortfall.

The IJB has been unable to present a balanced budget for 2018/19, with a funding shortfall of £3.1 million.

An initial five-year financial outlook has been prepared, but the IJB has still to develop detailed medium and long term financial plans.

Financial management

26. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements.

27. The Chief Financial Officer was appointed on 9 August 2017. She reports directly to the Chief Officer and regularly reports to the IJB and the Audit, Performance and Risk Committee.

28. In 2016/17 we reported that the IJB did not identify the extent of the year-end underspends in budget monitoring reports presented to the Board during the year. The 2017/18 budget reports show a marked improvement in projecting the year-end outturn. In 2017/18 budget monitoring reports are prepared quarterly for the Board. [Exhibit 4](#) summarises the forecast year end position reported at the end of each quarter.

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

Exhibit 4

Financial Monitoring reports showing projected outturn for over/underspends

| | Core budget forecast (over)/underspend £m | Strategic Funds forecast (over)/underspend £m | Total year end forecast (over)/underspend £m |
|------------------|---|---|--|
| Quarter 1 | - | - | - |
| Quarter 2 | (1.7) | 2.5 | 0.8 |
| Quarter 3 | (2.1) | 2.6 | 0.5 |
| 2017/18 Accounts | (2.3) | 3.1 | 0.8 |

Source: Financial Monitoring Reports taken to IJB

Financial performance in 2017/18

29. An indicative budget for 2017/18 was approved by the IJB in March 2017. This identified a funding gap of £3.98 million. A favourable position was realised at the end of 2016/17 creating reserves of £2.7 million and this along with further identified savings (£0.6 million) and further work on budget pressure assessments (reduction of £2.7 million) allowed the IJB to balance its budget in June 2017. Movements in the funding between the indicative budget and the balanced budget were as a result of improvements in the clarity of the allocation of funding.

30. The budgeted position continued to move throughout 2017/18 in the main as result of the allocation of non-recurring funding that is received via NHS Grampian. The outturn is identified in [Exhibit 5](#). This shows the initial funding gap, balanced budget and performance against the final budget.

31. The IJB reported an overspend against Core Services of £2.2 million which was funded by use of reserves and slippage against strategic funds, leaving a remaining reserves balance of £0.8 million.

Exhibit 5

Performance against budget

| IJB budget summary | Indicative budget March '17 £m | Balanced budget June '17 £m | Final budget £m | Actual £m | Variance £m |
|---|--------------------------------------|-----------------------------------|--------------------|----------------|----------------|
| NHS Grampian Funding (including set aside) | 73,739 | 81,271 | 84,892 | 84,892 | - |
| Moray Council Funding | 46,475 | 40,069 | 40,070 | 40,070 | - |
| Total Funding | 120,214 | 121,340 | 124,962 | 124,962 | - |
| Total Core Services | 114,032 | 113,616 | 112,456 | 114,700 | (2,244) |
| Set aside | 10,163 | 10,163 | 10,593 | 10,593 | - |
| Strategic Funds | - | - | 4,618 | 1,527 | 3,091 |
| Total IJB expenditure | 124,195 | 123,779 | 127,667 | 126,820 | 847 |
| Funding gap/use of reserves | (3,981) | (2,439) | (2,705) | (1,858) | 847 |

Source: 2017/18 budget/ Annual Accounts

Financial planning

32. The financial budget for 2018/19 was approved in March 2018. This identified a shortfall of £4.6 million, which represents a funding gap of 3.6% against budget expenditure of £127 million, including £10.6 million set aside. At the end of June 2018, the Chief Financial Officer presented a revised budget, which had been updated to reflect the 2017/18 year end position. The budget approved the use of the remaining reserves balance of £0.8 million, and identified additional savings of £0.5 million, leaving a shortfall of £3.3 million.

33. The most recent budget monitoring report reports an overspend of £1 million as at 30 June 2018. The budget shortfall has dropped slightly to £3.1 million, however the IJB is still unable to present a balanced budget for 2018/19.

34. To address the 2018/19 budget shortfall the integration scheme requires the Chief Officer and Chief Financial Officer to agree corrective action with the Board and this is being explored through sessions being held with senior and operational management teams. If the shortfall cannot be resolved a recovery plan must be agreed between the Chief Officer and Chief Financial Officer of the IJB, and the Director of Finance of NHS Grampian and the Section 95 officer of Moray Council.



Recommendation 2

The 2018/19 budget shortfall should be addressed to allow the IJB to balance its budget, or a recovery plan must be agreed with NHS Grampian and Moray Council.

Medium and long term financial planning

35. As we reported in 2016/17 the IJB does not currently carry out longer term financial planning. In August 2018 the Chief Financial Officer presented an initial financial outlook for the next 5 years to the Board and intends to develop a financial strategy through alignment with the Strategic Plan 2019-2022. The IJB therefore still need to prepare detailed medium to long term financial plans based on demand and resource assumptions using sensitivity analysis and scenario planning.



Recommendation 3

A long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be developed. 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).

Reserves strategy

36. The IJB approved its reserves policy at the IJB meeting on 31 March 2016 (updated in January 2018), this allows the IJB to hold reserves. At the 31 March 2018 the IJB held reserves of £0.8 million. The IJB reserves are represented by debtors balances due from NHS Grampian and Moray Council of £0.7 million and £0.1 million respectively.

37. The IJB has approved the use of the remaining reserves of £0.8 million to support the funding of the 2018/19 revenue budget shortfall.

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.

Systems of internal control

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

39. As part of our audit approach we sought assurances from the external auditor of NHS Grampian and Moray Council (in accordance with ISA 402) and confirmed there were no weaknesses in the systems of internal controls for the health board. The majority of systems of key controls at the council were operating effectively with the exception of controls in operation over the council's payroll system. Substantive testing did not identify any issues.

Part 3

Governance, transparency and value for money



Main judgements

The IJB revised its governance arrangements in 2017/18 and these are appropriate.



The annual performance report for 2017/18 was not published within four months of the year end, and omitted information about financial performance analysed by locality required by the Regulations.

Governance arrangements

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

41. In June 2018 the IJB took the decision to amend the Audit and Risk Committee remit to include performance issues and as such the committee has been renamed the Audit, Performance and Risk Committee.

42. The Audit and Risk Committee approved a Local Code of Corporate Governance in December 2017. The local code is based on and adopts the principles of the CIPFA/SOLACE Delivering Good Governance Framework. The IJB's Annual Governance Statement includes an annual review to assess the IJB's performance against the principles. Our review of the Annual Governance Statement concludes that while the IJB described in detail the governance arrangements and processes in place it does not provide an assessment of the effectiveness of the IJB's arrangements.

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.

Transparency

43. All committee and Board meetings are held in public. Access to all committee papers and minutes of meetings is available on the IJB's website.

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

Internal audit

45. The IJB's internal audit function is provided by Moray Council's internal audit team. As part of our Moray Council audit we reviewed the internal audit function and noted that an external assessment against the Public Sector Internal Audit Standards (PSIAS) had not been undertaken since the introduction of the PSIAS on 1 April 2013.

46. The PSIAS requires that an external assessment take place at least every five years and so internal audit has not complied with this requirement. We have been advised that an external assessment will be undertaken in September 2018. The Internal Audit Manager recently completed a self-assessment of the internal audit function and reported the results of this review to Moray Council's Audit and Scrutiny Committee on 22 August 2018. Two standards were assessed as partially conforming and work to address these is underway. We will undertake a further review of internal audit as part of our planning for the 2018/19 audit.



Recommendation 4

An external assessment of the internal audit function against the Public Sector Internal Audit Standards should be undertaken and the results reported to the IJB.

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

47. In 2016/17 we reported on the IJB's arrangements for the prevention and detection for fraud and bribery and concluded that they were effective.

48. All voting, non-voting and co-opted members are required to complete and update their register of interests. These are maintained by the IJB and are available on the IJB's website. From a review of the register of interests available on the website it was identified that a number of registers have not been updated since August 2016.



Recommendation 5

All voting, non-voting and co-opted members should update their register of interests at least annually and these should be made available on the IJB's website.

Value for money and performance management

49. Best Value duties apply to accountable officers across the public sector. One of the key principles of the IJB integration scheme is making best use of public money by providing services that are efficient, effective and sustainable, and best value is a visible theme throughout IJB reports. One mechanism for the IJB ensuring Best Value is through the preparation of the annual performance report, the report assesses performance in relation to best value.

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

50. The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. The IJB did not publish an annual performance report within this timescale.

51. We have reviewed the annual performance report for 2017/18 and identified it does not fully comply with the prescribed content set out in The Public Bodies (Joint Working) (Scotland) Act 2014 (Content of Performance Reports) (Scotland) Regulations 2014 in respect of financial information. The regulations require information about financial performance analysed by locality. The Chief Financial Officer is committed to improving financial reporting and this will be reflected in future reports.

52. The regulations also require that where a scrutiny body has made recommendations as a result of carrying out an inspection those recommendations are listed within the performance report. While the IJB do not provide a detailed list of recommendations, a year on year comparison and examples of how recommendations are being addressed is included.



Recommendation 6

The annual performance report should be published in accordance with the timescale as set out in the 2014 regulations.

The contents of the annual performance report should be improved to include information about financial performance analysed by locality.

53. The IJB receives performance reports on a quarterly basis. These reports assess performance indicators as red, amber or green and note any change in assessment since the previous quarterly performance report. The IJB is continuing to develop its performance management framework during 2018 and is looking to further develop local indicators including new indicators across health and social care.

National performance audit reports

54. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18 we published some reports which may be of interest to the IJB as outlined in [Appendix 3](#).

55. In November 2018 we will publish our second national report looking at the integration of health and social care. Now that integration authorities are more established, this report will look at progress and follow up on the risks identified in our first report. The audit will also examine changes to the system, including evidence of shifts in service delivery from acute to community based and preventative services, and the impact on the lives of local people.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|--|---|
| 1 | <p>Notice of public right to inspect and object to accounts</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 require that the notice of public right to inspect and object to accounts is published on the IJB's website. The IJB did not publish the public notice on its own website in accordance with the regulations.</p> <p>Risk</p> <p>The IJB fails to comply with the Local Authority Accounts (Scotland) Regulations 2014.</p> | <p>In 2018/19 the IJB should publish the notice of public right to inspect and object to the accounts on its website within the required timescale.</p> | <p>The IJB will publish the notice of public right to inspection on the Health and Social Care Moray website.</p> <p>Responsible officer</p> <p>Chief Financial Officer</p> <p>Agreed date</p> <p>By 17 June 2019</p> |
| 2 | <p>Budget setting/financial sustainability</p> <p>The financial budget for 2018/19 approved in March 2018 identified a funding shortfall of £4.6 million. While the shortfall has reduced, the IJB has not been able to present a balanced budget for 2018/19.</p> <p>Risk</p> <p>The IJB is unable to balance its budget and may not be able to deliver planned services or will have to call on NHS Grampian and Moray Council to provide additional funding.</p> | <p>The 2018/19 budget shortfall should be addressed to allow the IJB to balance its budget, or a recovery plan must be agreed with NHS Grampian and Moray Council.</p> | <p>The IJB will make continued efforts to address the budget position, accepting that this will result in the production of a recovery plan to be agreed by NHS Grampian and Moray Council.</p> <p>Responsible officer</p> <p>Chief Officer and Chief Financial Officer</p> <p>Agreed date</p> <p>December 2018</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|--|--|
| 3 | <p>Medium and long term financial planning</p> <p>There are no medium to long term financial plans in place. Audit Scotland is encouraging councils and health boards to develop medium and long term financial plans and we expect IJBs to do this too.</p> <p>Risk</p> <p>The IJB is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p> | <p>A long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be prepared. This is increasingly important as demand pressures increase, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary. Plans should set out scenario plans (best, worst, most likely).</p> | <p>Financial strategies and plans will be developed which will support and be aligned to the Strategic Plan.</p> <p>Responsible Officer</p> <p>Chief Officer and Chief Financial Officer</p> <p>Agreed date</p> <p>31 March 2019</p> |
| 4 | <p>External assessment of Internal Audit</p> <p>An external assessment of the IJB's internal audit function was not completed within five years of the introduction of the Public Sector Internal Audit Standards as required by these standards.</p> <p>Risk</p> <p>Without external assessment, Internal Audit cannot demonstrate that it complies with the Public Sector Internal Audit Standards.</p> | <p>An external assessment of the internal audit function should be undertaken, and the results reported to the IJB.</p> | <p>An external assessment is in progress and will be reported accordingly in line with the Internal Audit Plan 2018/19.</p> <p>Responsible officer</p> <p>Chief Internal Auditor</p> <p>Agreed date</p> <p>March 2019</p> |
| 5 | <p>Register of Interests</p> <p>All voting, non-voting and co-opted members are required to complete and update their register of interests. From a review of the register of interests available on the website it was identified that a number of registers have not been updated since August 2016.</p> <p>Risk</p> <p>The IJB is failing to keep an up to date register of interests.</p> | <p>All voting, non-voting and co-opted members should update their register of interests at least annually and these should be made available on IJB's website.</p> | <p>Processes will be developed to ensure more regular updates of register of interests. The Health and Social Care website will be updated accordingly.</p> <p>Responsible officer</p> <p>Chief Officer</p> <p>Agreed date</p> <p>During 2018/19</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|---|--|--|
| 6 | <p>Annual Performance Report</p> <p>The IJB did not publish its annual performance report within four months of the year end.</p> <p>We reviewed the contents of the 2017/18 annual performance report and found that the financial information does not fully comply with the 2014 Regulations.</p> <p>Risk</p> <p>The IJB is not fulfilling its responsibilities in relation to public performance reporting.</p> | <p>The annual performance report should be published in accordance with the timescale as set out in the 2014 regulations.</p> <p>The contents of the annual performance report should be improved to include information about financial performance analysed by locality.</p> | <p>A different approach will be adopted during 2018/19 to assist the production of the Annual Performance Report and its timely publication. Progress around Locality Planning continues to be a priority for the IJB and performance will be assessed against the criteria as it develops.</p> <p>Responsible officer</p> <p>Chief Officer and Chief Financial Officer</p> <p>Agreed date</p> <p>31 July 2019</p> |

Follow up of prior year recommendations

| | | | |
|-----|--|---|---|
| b/f | <p>Confirmation of balances</p> <p>Confirmation of the year end debtor balance was received from NHS Grampian by email. Formal confirmation of the debtor balance with Moray Council was not obtained.</p> <p>Risk</p> <p>Year end balances in the accounts are inconsistent between partners.</p> | <p>The IJB should ensure that balances and transactions are formally agreed at the year end in accordance with timescales agreed with NHS Grampian and Moray Council.</p> | <p>Complete</p> <p>The Chief Financial Officer advised that the Integration Scheme gives no requirement to formally agree the balances, just that balances are agreed. The CFO advised that there is ongoing dialog with both partners at year end to establish an agreed position and which has become embedded in the year end process.</p> |
| b/f | <p>Acute hospital set-aside</p> <p>Arrangements for the sum set aside for hospital acute services under the control of the IJB are not yet operating as required by legislation and statutory guidance.</p> <p>A notional figure has been agreed and included in the annual report and accounts. This is based on 2014/15 activity levels uprated to reflect the 2016/17 price basis and does not reflect actual hospital use.</p> <p>This is a transitional arrangement agreed by the Scottish Government.</p> | <p>NHS Grampian and the IJB should prioritise establishing revised processes for planning and performance management of delegated hospital functions and associated resources in 2017/18.</p> | <p>Complete</p> <p>A notional figure has been agreed and included in the 2017/18 financial statements. This is based on 2016/17 activity levels uprated to reflect 2017/18 prices.</p> <p>This reflects correspondence from the Scottish Government issued on 21 February 2018 in connection with Large Hospital Services and Set Aside Budgets for 2017/18.</p> |



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|---|--|
| | <p>Risk</p> <p>The sum recorded as set aside for acute services in the annual accounts does not reflect actual hospital use.</p> | | |
| b/f | <p>Budget Monitoring</p> <p>The in-year budget monitoring reports did not forecast the £2.7 million underspend. There were late budget adjustments with final revised budgets being confirmed at year-end.</p> <p>Risk</p> <p>Budget reports do not provide sufficient information to enable members to review in-year financial performance.</p> | <p>Financial monitoring reports should be reviewed to ensure that they include reliable financial projections and that there is a clear link between in year reports and the year end position reported in the annual accounts.</p> | <p>Complete</p> <p>Work on financial monitoring reports has improved the clarity of information provided to members. Financial monitoring reports are comprehensive and outline any under/overspends as well as the reason for these variances.</p> |
| b/f | <p>Medium and long term financial planning</p> <p>There are no medium to long term financial plans in place. Audit Scotland is encouraging councils and health boards to develop medium and long term financial plans and we expect IJBs to do this too.</p> <p>Risk</p> <p>The IJB is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p> | <p>We recommend that a long term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) is prepared. This is increasingly important as demand pressures increase, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary. Plans should set out scenario plans (best, worst, most likely).</p> | <p>Outstanding</p> <p>An initial financial outlook for the next 5 years was presented to the Board in August 2018, but the IJB has still to develop more detailed medium to long term financial plans. Refer to Recommendation 3 in this action plan.</p> |
| b/f | <p>Best Value</p> <p>The Board should have systems and processes to ensure that it can demonstrate that it is delivering Best Value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.</p> <p>Risk</p> <p>Opportunities for improvement through Best Value review may be missed.</p> | <p>The IJB should undertake a periodic and evidenced formal review of its performance against Scottish Government Best Value framework.</p> | <p>Complete</p> <p>The IJB's performance report provides an assessment of performance in relation to best value.</p> |

Appendix 2

Significant audit risks identified during planning

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

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|---|
| Risks of material misstatement in the financial statements | | |
| <p>1 Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p> | <p>Detailed testing of journal entries.</p> <p>Service auditor assurances will be obtained from the auditors of Moray Council and NHS Grampian over the completeness, accuracy and allocation of income and expenditure.</p> <p>Review of the confirmation of balances provided by NHS Grampian and Moray Council as part of the accounts preparation process.</p> | <p>Service auditor assurance was obtained from the auditors of Moray Council and NHS Grampian.</p> <p>All movements of funds between IJB and partner bodies were confirmed to management accounts and representations by partner bodies.</p> |
| <p>2 Acute hospital set-aside</p> <p>Arrangements for the sum set aside for hospital acute services under the control of the IJB are not yet operating as required by legislation and statutory guidance. There is a risk that the sum recorded in the accounts as set aside for acute services does not reflect actual hospital use.</p> | <p>Monitor Scottish Government guidance on the treatment of set aside in the 2017/18 financial statements.</p> <p>Engage with officers to ensure that a robust mechanism is developed to quantify the IJB's set aside income and expenditure in future years.</p> | <p>The set-aside figure in the 2017/18 accounts is based on the 2016/17 activity levels uprated to reflect 2017/18 price basis.</p> <p>This reflects correspondence from the Scottish Government issued on 21 February 2018 in connection with Large Hospital Services and Set Aside Budgets for 2017/18.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|---|
| Risks identified from the auditor's wider responsibility under the Code of Audit Practice | | |
| <p>3 Financial sustainability</p> <p>The initial budget set for 2017/18 included a funding gap of £4 million. A revised budget was set in June 2017 which used all of the IJB's reserves to balance the budget.</p> <p>Based on the latest budget monitoring report covering the period to 31 December 2017, the IJB is forecast to overspend on core services by £2.1 million in 2017/18. Once strategic fund balances are taken into account a small underspend (£0.5 million) is projected.</p> <p>In our 2016/17 Annual Audit Plan we reported that the 2016/17 in year budget monitoring did not forecast the £2.7 million underspend achieved at the year-end. There is a risk that budget reports do not provide sufficient information to enable members to review in-year performance and take effective corrective action.</p> <p>We also reported last year that there are no medium to long term financial plans in place. Without medium term financial planning and sufficient reserves, there is a risk that the IJB is not financially sustainable and will be dependent on additional year-end funding from NHS Grampian and Moray Council.</p> | <p>Review the 2018/19 budget setting process.</p> <p>Continue to monitor the in-year and year-end financial position and any additional funding required from NHS Grampian or Moray Council.</p> <p>Review the development of medium / long term financial planning.</p> | <p>In 2017/18 the IJB utilised £1.9 million of reserves, leaving a balance of £0.8 million.</p> <p>The initial 2018/19 budget identified a significant funding shortfall. The IJB have not yet addressed how this shortfall will be met (appendix 1, recommendation 2).</p> <p>Medium/long term financial plans have not been developed (appendix 1, recommendation 3).</p> |

Appendix 3

Summary of national performance reports 2017/18



| | | | |
|--|---|------|--|
| | | Apr | |
| | | May | |
| Common Agricultural Policy Futures programme: further update |  | Jun |  Scotland's colleges 2017 |
| | | Jul |  NHS workforce planning |
| Self-directed support: 2017 progress report |  | Aug | |
| Equal pay in Scottish councils |  | Sept | |
| Transport Scotland's ferry services |  | Oct |  NHS in Scotland 2017 |
| Local government in Scotland: Financial overview 2016/17 |  | Nov | |
| | | Dec | |
| | | Jan | |
| Early learning and childcare |  | Feb | |
| Managing the implementation of the Scotland Acts |  | Mar | |

Reports relevant to Integration Joint Boards

[Self-directed support: 2017 progress report](#) – August 2018

[NHS in Scotland 2017](#) – October 2018

Moray Integration Joint Board

2017/18 Annual Audit Report

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