

Audit of 2017/18 annual accounts (local authorities) - module 9 integration joint boards

**Technical guidance note
2017/10(LA)**



Prepared for appointed auditors in the local authority sector
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1 Introduction

Purpose of module

1. This module provides guidance on applying technical guidance note 2017/10(LA) to the audit of the annual accounts of an integration joint board (IJB).
2. It also provides supplementary information on, and guidance on the risks of misstatements in, the following areas
 - Presentation of surplus or deficit on the provision of services.
 - Accounting for operating expenditure.
 - Treatment of underspends and overspends.
 - Accounting for 'hosted' services.
 - Calculating hospital services set asides.
 - Disclosure of related parties.
 - 'Relevant persons' in the remuneration report.

Contact point for this module

3. The contact point in Audit Scotland's Professional Support for this module of the technical guidance note is Neil Cameron, Manager (Professional Support) - ncameron@audit-scotland.gov.uk.

IJB overview

4. The [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#) establishes the framework for the integration of health and social care in Scotland. In most cases, the integration authority is a separate IJB, which are legal entities falling within section 106 of the *Local Government (Scotland) Act 1973*. The IJB has responsibility for the planning, resourcing and operational delivery of all integrated services. An integration scheme sets out the detail of the integration arrangement.
5. Under the Act
 - a health board and one or more local authorities (referred to in the Act as 'constituent authorities') delegate functions and contribute funding to the IJB in respect of those functions
 - the health board sets aside amounts in respect of large hospital services for use by the IJB
 - the IJB commissions services from, and makes payment to, the constituent authorities for delivery of those services
 - some IJBs host speciality services for the health board area.

2 Application of other modules to IJBs

Purpose of section

6. This section of module 9 provides guidance on applying the other modules of technical guidance note 2017/10(LA) to the audit of IJB annual accounts.

Summary of other modules' application

7. The following tables summarise the application of the other modules to IJBs, and either provide supplementary guidance in some areas or indicate the section of this module in which it is provided.

Overview module

8. The following table summarises the application of the overview module which largely applies in full though there are additional considerations:

Section	Applicability	Supplementary guidance
Section 1 Introduction	Applies	Guidance has been issued by the Integrated Resources Advisory Group (IRAG) in Health and social care integration finance guidance and accounting guidance from LASAAC (which supersedes some accounting aspects of the IRAG guidance) was provided in Additional guidance on accounting for the integration of health and social care 2016/17 . Refreshed guidance is expected from LASAAC for 2017/18, and Professional Support will advise auditors when it is available.
Section 2 Accounts regulations	Applies	The IRAG guidance considers the statements in the IJB annual accounts at paragraphs 3.1.1.1 to 3.1.1.8, and provides illustrative accounts in an appendix to section 3 (which should be considered in light of the LASAAC guidance).
Section 3 Proper accounting practices	Applies	No further guidance is required.

Section	Applicability	Supplementary guidance
Section 4 Auditing standards	Applies	Where the auditor of an IJB does not also audit a constituent authority that hosts systems relevant to the IJB's financial reporting, auditors may need to refer to ISA (UK) 402 Audit considerations relating to an entity using a service organisation .
Section 5 Presentation of financial statements	Applies	Supplementary guidance on the presentation of the financial statements is provided at section 3 of this module.
Section 6 Accounting policies, estimates and prior year errors	Applies	No further guidance is required.

Modules 1 to 6

9. The following table covers the application of modules 1 to 6 of the technical guidance note:

Module	Applicability	Supplementary guidance and action
Module 1 Property, plant and equipment	Not applicable	IJBs do not generally hold property, plant and equipment.
Module 2 Provisions, creditors and accruals	Applies	The main principles apply though many of the specific provisions referred to will not be applicable.
Module 3 Financial instruments	Not applicable	IJBs do not generally hold financial instruments.
Module 4 Retirement benefits	Not applicable	In accordance with paragraphs 29 and 37 of the LASAAC guidance , this would only apply if exceptionally the IJB has formally agreed to accept the ongoing retirement benefit liabilities for the Chief Officer or voting board members.
Module 5 Reserves	Not applicable	While IJBs have the power to hold reserves, and may have a general fund balance if they retain an underspend, they do not in practice operate other reserves.

Module	Applicability	Supplementary guidance and action
Module 6 Group financial statements	Not applicable	IJBs are unlikely to have to prepare group financial statements. However, IJBs are likely to be included in the constituent authority's group financial statements (probably as a joint venture).

Module 7 Other financial statement areas

10. Most of the sections in module 7 of the technical guidance note are not expected to apply to IJBs in practice. The following table lists those that may apply along with some supplementary guidance:

Section	Supplementary guidance and action
Section 2 Expenditure and funding analysis	This applies if there are any statutory adjustments.
Section 10 Cash and cash equivalents	IJBs are not expected to hold cash or have bank accounts, and auditors should confirm that any underspend has been presented as a debtor.
Section 11 Grants and other income	Principles apply to the funding contributions provided by constituent authorities.
Section 14 Events after the reporting period	No further guidance is required.
Section 15 Miscellaneous disclosures	Supplementary guidance on related parties and agency arrangements is provided at section 3 of this module.

Module 8 Non-financial statements

11. The following table lists the sections in module 8 which apply to IJBs along with some supplementary guidance:

Section	Applicability	Supplementary guidance and action
Section 2 Remuneration reports	Applies	Supplementary guidance is provided at section 4 of this module.

Section	Applicability	Supplementary guidance and action
Section 3 Management commentary	Applies	IRAG guidance expects the management commentary to be signed by the Chief Officer, Chair, and IJB financial officer
Section 4 Annual governance statement	Applies	IRAG guidance expects the annual governance statement to be signed by the Chief Officer and Chair.
Section 5 Statement of responsibilities	Applies	IRAG guidance expects the statement of responsibilities to be signed by the IJB financial officer.
Statement 6 Other information	Applies	No further guidance required.

3 Financial statements

Risks of misstatement

12. The following paragraphs highlight potential risks of misstatement in respect of the financial statements, and set out actions for auditors to undertake to assess whether the IJB has followed the required treatment.

Surplus or deficit on the provision of services in the CIES is not properly presented

13. IJBs act as principal for all integrated services delegated to them. This means that in resource terms funding contributions received by the IJB from the constituent authorities are distinct from the commissioning expenditure incurred by the IJB, which is also distinct from the subsequent service delivery expenditure incurred by constituent authorities.
14. The items that IJBs are therefore required to present in the CIES are summarised in the following table:

Item	Guidance
Funding contributions from constituent authorities	Unhypothecated funding should be presented as taxation and non specific income. Any funding provided for a specific service should be presented as income in the relevant service line.
Operating expenditure	This relates to the costs of operating the IJB, and should include the supply of staff and services by the constituent authorities.
Commissioning expenditure	This is the resource provided to constituent authorities to fund the delivery of the commissioned services. The analysis of service segments should be based on the IJB's internal management reporting.

15. **Auditors should** assess whether the surplus or deficit on the provision of services in the 2017/18 CIES has been properly presented.

Operating expenditure is not properly accounted for

16. The [2016/17 LASAAC guidance](#) covers IJB operating expenditure at paragraphs 11 to 19. The main issues are summarised in the following table:

Issue	Guidance
Constituent authorities' own support services (e.g. HR, payroll, accommodation)	Support service cost incurred by constituent authorities when delivering commissioned services should not be included in IJB operating expenditure. However, they may be reflected in commissioning expenditure if the funding contributions include an allowance for them.
Support services provided by constituent authorities to IJB for a consideration (e.g. ledger and financial services)	Where the funding contribution is reduced as consideration for the provision of these services <ul style="list-style-type: none"> • the funding contribution should be grossed up • the consideration should be shown as operating expenditure.
Support services provided by constituent authorities to IJB free of charge (i.e. service in kind)	IPSAS 23 states that a body may recognise the value of services in kind received as expenditure and income, but there is no requirement to do so. However, the LASAAC guidance recommends that the nature and extent of the arrangement is disclosed as a note in the IJB accounts.

17. Auditors should assess whether

- operating expenditure for 2017/18 is complete and free from misstatement
- support services provided by constituent authorities has been properly accounted for
- information has been disclosed on support services provided by constituent authorities free of charge.

Under/overspends are not accounted for in accordance with integration scheme

- 18.** An integration scheme should set out the process to agree and amend payments to the IJB and to deal with variances in spending on integration functions. The appropriate accounting treatment at the year end is determined by the approach adopted in the integration scheme. The integration scheme should specify where adjustments to funding contributions and commissioning expenditure are required to meet any under/overspend.
- 19.** Where the funding responsibility for an overspend is wholly with the overspending constituent authority, or any underspend is wholly retained by the authority, there will be no adjustments to either the funding contribution or the commissioning expenditure in the IJB accounts.
- 20.** However, the IJB may have responsibility for under/overspends, resulting in the funding contribution from one or more constituent authorities being formally varied/adjusted at the year end. The following table sets out various possible options under these arrangements:

Description	Contribution adjustment		No contribution adjustments	
	Funding Contribution	Commissioning Spend	Funding Contribution	Commissioning Spend
Underspend retained by constituent authority	Reduced	Reduced	No change	No change
Overspend borne by constituent authority	Increased	Increased	No change	No change
Underspend retained by IJB	No change	Reduced	No change	Reduced
Overspend borne by IJB	No change	Increased	No change	Increased
Overspend by one constituent authority borne by all (risk sharing)	Increased	Increased (for overspending authority)	Increased	Increased (for overspending authority)
Underspend by one constituent authority shared by all (risk sharing)	Reduction	Reduced	Reduction	Reduced

21. **Auditors should** assess whether any under or overspends for 2017/18 have been properly accounted for in accordance with the integration scheme.

Hosted services are not properly accounted for

22. Some IJBs 'host' speciality services for the whole health board area on behalf of all the other IJBs, with the recipient IJBs being recharged for the services for their area or population. The integration scheme should set out how this operates in practice. The main options are set out in the following table:

Option	Treatment
Amount recharged is the same as the costs incurred	It is expected that the hosting IJB is acting as an agent (explained in module 7). The costs and recharges of these services should not appear in the CIES of the hosting IJB (except for its own share of the service costs).
Hosting IJB retains any over/underspend for the whole area	The hosting IJB may be acting as principal. The costs and recharges of these services should be included in the CIES of the hosting IJB.

23. **Auditor should** consider the terms of the integration scheme and assess whether
- the hosting IJB is acting as agent or principal

- the arrangements have been accounted for in 2017/18 in line with the requirements of the integration scheme
- income and expenditure related to an agency arrangement has been excluded from the CIES.

Amount set aside for hospital services are not properly calculated

24. IJBs are responsible for the strategic planning of hospital services most commonly associated with the emergency care pathway. Health boards are required to calculate in accordance with guidance issued under the Act an amount 'set aside' for the provision of these delegated services. This resource is within the control of the IJB and should be included in the overall funding contribution.
25. In 2016/17, the Scottish Government recognised that arrangements for calculating the sum set aside were not operating as required by the legislation and guidance. As a transitional arrangement, the Scottish Government allowed health boards and IJBs to agree a figure for the sum set aside based on the 2016/17 budget to be included in the 2016/17 annual accounts. The IJB set aside income equalled their set aside expenditure and any under or overspend on services was to be met by the health board.
26. For 2017/18, the health board is required to comply with the guidance in establishing the amount set aside, and advise the IJB accordingly. **Auditors should** assess whether the amounts set aside included in the 2017/18 IJB annual accounts have been established in accordance with the guidance, where the information was available to the IJB. The failure of the health board to calculate the set aside in accordance with the guidance does not represent a misstatement in the IJB accounts.

Information on related parties is not disclosed

27. The constituent authorities are expected to be related parties to the IJB. The [2016/17 LASAAC guidance](#) covers related parties at paragraphs 61 to 63. IJBs should disclose
 - contributions received from each constituent authority
 - commissioning expenditure provided to each constituent authority
 - services in kind
 - amounts incurred by the IJB for the provision of key management personnel. This is expected to include non-voting board members (e.g. the IJB chief officer, chief social work officer, chief financial officer) where the IJB is charged by the constituent authorities for their services.
28. **Auditors should**
 - confirm that related party disclosures have been made for 2017/18
 - assess whether the disclosures are complete and free from misstatement.

Irrelevant disclosures are made

29. Although IJBs are required to comply with the accounting code and accounts regulations, there are a number of disclosure requirements that do not apply in practice. Relevance is a fundamental qualitative characteristic of financial information, and an IJB should not include information in the annual accounts that is not relevant to its circumstances.
30. In addition, an IJB need not comply with the disclosure requirements of the accounting code if the information is not material to the understanding of users.
31. As examples, if an IJB did not hold
 - any cash or cash equivalents at any point during the year, a cash flow statement is not required
 - any assets or liabilities at the end of the year, a balance sheet is not required
 - any financial instruments at any point during the year, an accounting policy on financial instruments is not required
32. **Auditors should** assess whether there are any irrelevant or immaterial disclosures in the 2017/18 annual account, and request that the IJB remove any such disclosures identified.

4 Remuneration report

Risks of misstatement

33. The following paragraphs highlight potential risks of misstatement in respect of the remuneration report, and set out actions for auditors to undertake to assess whether the IJB has followed the required treatment.

Relevant persons not included in the remuneration report

34. The [2016/17 LASAAC guidance](#) provides an interpretation of the requirements for the remuneration report at paragraphs 20 to 48. The guidance considers which individuals should be considered a 'relevant person' (as explained in module 8) for inclusion in the remuneration report and the related disclosures. This is summarised in the following table:

Category	Relevant person	Disclosure
Chairperson and Vice-Chairperson of the board	Yes	Names and their constituent authority Any remuneration received including taxable expenses Pension entitlement along with an explanation that the pension liability rests with the relevant constituent authority
Other voting board members	No	Names and their constituent authority (voluntary) A statement that the IJB does not pay allowances or remuneration to voting board members but that they are remunerated by their constituent authority
IJB chief officer	Yes	An explanation that the chief officer is regarded as an employee of the IJB although their contract of employment is with the relevant constituent authority Where not full time, only the remuneration related to the IJB post should be disclosed Pension entitlement related to the IJB role along with an explanation of where the pension liability rests
Other office-holders	Possible (see below)	As for chief officer where 'relevant person' criteria met

35. Officers and staff other than the chief officer are not regarded as employees of the IJB. However, a 'relevant person' includes any senior employee holding office with an IJB. Therefore direct employment status is not the only consideration to take into account. The chief finance officer is therefore likely to meet the definition of a relevant person by virtue of holding an office with the IJB. This may also apply to other officers and staff.
36. **Auditors should** assess whether all relevant persons are included in the remuneration report. Where a relevant person is omitted, **auditors should** request that the IJB includes that person. Where the IJB declines to do so, **auditors should** discuss the matter with Audit Scotland's Professional Support and consider qualifying their opinion on the remuneration report.