

# Argyll & Bute Integration Joint Board

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Argyll & Bute Integration Joint Board and the Controller of Audit  
November 2021

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# Key messages

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## 2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts of the Argyll & Bute Integration Joint Board (the IJB) are unmodified.

## Financial management and sustainability

- 2 The IJB has appropriate and effective financial management arrangements in place and returned an underspend of £1.089 million against a budgeted breakeven outturn. This was partly due to the receipt of Scottish Government support for all additional Covid-19 costs.
- 3 Medium-term financial plans have been developed for the period 2022/23 to 2024/25 and the IJB has identified a budget deficit of £19.382 million over this period. The organisation recognises that it continues to face challenges delivering savings targets. The IJB recognises that the Scottish Government is planning to increase funding to the Health and Social Care Sector.

## Governance, Transparency and Best Value

- 4 The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the Board. Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively.
- 5 The IJB has put in place appropriate arrangements to demonstrate the achievement of Best Value.
- 6 Performance indicators and associated targets have been under review to ensure they reflect the impact of Covid-19 on methods of service delivery and the associated outcomes. The IJB should continue to regularly review these arrangements, to ensure key indicators remain appropriate.

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# Introduction

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**1.** This report summarises the findings from our 2020/21 audit of the Argyll & Bute 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 20 April 2021. This report comprises the findings from:

- an audit of the IJB's 2020/21 annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

**3.** The global coronavirus pandemic has had a considerable impact on the IJB and its partner bodies during 2020/21. This has had significant implications for services, sickness absence levels and planned projects and initiatives. Risks related to the pandemic were included in our Annual Audit Plan, and we have adapted our planned audit work to address any new emerging risks.

## Adding value through the audit

**4.** We add value to the IJB, through audit, by:

- having regular dialogue with senior officers as the strategic and operational impact of Covid-19 developed
- sharing learning from our experiences working with other bodies and agreed a clear, no surprises, approach for the remote audit of the 2020/21 accounts
- making use of remote working to meet the revised statutory deadline of 30 November 2021 for audited annual accounts
- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

**5.** In doing so, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

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

**7.** Our responsibilities, as independent auditor appointed by the Accounts Commission, are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice and supplementary guidance, and International Standards on Auditing in the UK. As public sector auditors, we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, and the financial position and arrangements for securing financial sustainability.

**8.** Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice and supplementary guidance.

**9.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**10.** Our Annual Audit Report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers, and dates for implementation. It also includes outstanding actions from last year and progress against these.

## Auditor Independence

**11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £27,330, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** 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](http://www.audit-scotland.gov.uk) in due course. 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.

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# 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of the resources and performance.

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## Main judgements

Our audit opinions on the annual accounts of the IJB are unmodified.

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### Our audit opinions on the annual accounts of the IJB are unmodified

**14.** The annual accounts for the year ended 31 March 2021 were approved by the IJB on 24 November 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view of the state of affairs of the IJB and its income and expenditure for the year and were properly prepared in accordance with the financial reporting framework.
- the management commentary, the audited part of the remuneration report, and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with proper accounting practices.

### The Covid-19 pandemic had a limited impact on audit evidence

**15.** The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not affected by the Covid-19 pandemic. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

### The annual accounts were signed off in line with timescales permitted to reflect Covid-19

**16.** As a result of the continuing impact of Covid-19, the submission deadline for IJBs' audited annual accounts and annual audit reports have been extended to 30 November 2021.

**17.** The unaudited annual accounts were received in line with our agreed audit timetable on 29 June 2021. This allowed us to sign off the annual accounts in line with the revised timescales.

## Overall materiality is £5.9 million

**18.** We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of any identified misstatements on the audit. We identify a benchmark on which to base overall materiality such as gross expenditure and apply what we judge to be the most appropriate percentage level for assessing materiality values.

**19.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the financial statements. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

**20.** Our initial assessment of materiality was carried out during the planning stage of the audit. We reviewed this assessment on receipt of the unaudited annual accounts and concluded it remained appropriate. Our 2020/21 materiality levels are summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£5.9 million
Performance materiality	£4.1 million
Reporting threshold	£250 thousand

Source: *Audit Scotland*

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## Appendix 2 identifies the main risks of material misstatement and our audit work to address these

**21.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit, and indicate how the efforts of the audit team are directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

**22.** We have no issues to report from our work on the risks of material misstatement.

## **We have no significant findings or misstatements to report on the annual accounts**

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the IJB's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**24.** The accounts provided for audit were of a good standard. We have no significant findings to report, and we identified no misstatements that exceeded our reporting threshold. Our audit identified a small number of presentational issues, that were accepted by management and adjusted in the audited accounts.

## **Prior year recommendations are in progress**

**25.** The IJB's progress in implementing our prior year audit recommendations has been mixed and challenges still exist. Understandably, progress against some recommendations has been disrupted by Covid-19 and we will carry these matters forward to our audit for 2021/22. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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## 2. Financial management and sustainability

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

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### Main judgements

The IJB has appropriate and effective financial management arrangements in place and returned an underspend of £1.089 million against a budgeted breakeven outturn. This was partly due to the receipt of Scottish Government support for all additional Covid-19 costs.

Medium-term financial plans have been developed for the period 2022/23 to 2024/25 and the IJB has identified a budget deficit of £19.382 million over this period. The organisation recognises that it continues to face challenges delivering savings targets. The IJB also recognises that the Scottish Government is planning to increase funding to the Health and Social Care Sector in the coming year and anticipates that this will help alleviate some of the cost and demand pressures in the system.

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### Financial management and reporting arrangements are effective and allow members and officers to scrutinise the budget effectively

**26.** Comprehensive budget monitoring reports are reported to the Board and the Finance and Policy Committee. These contain information on the year-to-date financial position, forecast outturn for the year, variance analysis with explanations, progress in delivering savings and significant financial risks. The reports contain enough detailed information to enable members to carry out effective scrutiny and challenge of the IJB's finances.

**27.** The content of the budget monitoring reports was regularly updated to reflect the financial impact of Covid-19. Additional income received and expenditure incurred as a result of Covid-19 were clearly detailed in the budget monitoring reports. This ensured the board were aware of how Covid-19 impacted on the overall financial position and outturn.

**28.** Senior management and members receive regular and accurate financial information on the IJB's financial position and have concluded the IJB has appropriate budget monitoring arrangements in place.

## The IJB set a balanced budget for 2020/21 budget including planned savings to address the identified funding gap

**29.** The IJB considered its 2020/21 budget on 25 March 2020. Adjustments were made to the budget to reflect additional funding streams and commitments. The budget was initially completed with a high level of uncertainty due to the Covid-19 pandemic. Budgeted total income and expenditure for the year were respectively £286.306 million and £291.668 million, giving a budget gap before savings of £5.362 million.

**30.** Management/operational savings proposals totalling £4.157million had been approved by the IJB on 29 January 2020. These were amended by £0.055 million and the new total of £4.212 million was presented to the IJB meeting on 25 March 2020 along with an additional £1.493 million of policy savings to give total proposed savings of £5.705 million.

**31.** At the meeting the savings proposals of £5.705 million were further revised to £5.680 million and offset by further investment of £0.318 million to give a proposed balanced budget for 2020/21.

**32.** A budget consultation was carried out in respect of proposed policy savings and the results of this consultation were presented to the IJB. Equality Impact Assessments (EQIAs) were also carried out for all policy savings and also presented to the IJB.

**33.** The forecast outturn position for 2020/21 as at 31 July 2020 was an overspend of £2.964 million. In accordance with the Integration Scheme, whenever an overspend is identified, the Chief Officer and Chief Financial Officer are required to identify the cause and prepare a financial recovery plan to return to a break-even position.

**34.** An in-year financial recovery plan was required, and this was approved at the meeting of the IJB on 16 September 2020. The plan was based mainly on expected Covid-19 financial support from Scottish Government and some additional delivery against the savings targets.

## The IJB reported an underspend in 2020/21

**35.** The impact on public finances of the Covid-19 pandemic has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**36.** The IJB does not have any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer and Chief Finance Officer. All funding and expenditure for the IJB is incurred by partner bodies and processed in their accounting records.

Prior to 2020/21, the IJB had failed to deliver a balanced budget for some time. Budgets were overspent by £6.681 million in 2018/19 and by £1.165 million in 2019/20.

**37.** The IJB returned an underspend of £1.089 million against a budgeted breakeven position for 2020/21 ([Exhibit 2](#)). This underspend was achieved based on the in-year financial recovery plan.

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## Exhibit 2

### Performance against budget

IJB budget summary	Budget £m	Actual £m	Variance £m
NHS Highland	223.110	222.926	(0.183)
Argyll & Bute Council	76.635	75.729	(0.906)
<b>Total Net Expenditure</b>	<b>299.755</b>	<b>298.655</b>	<b>(1.089)</b>

Source: Argyll and Bute Integration Joint Board

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**38.** There were a number of contributing factors to the underspend including

- vacant posts
- reduced non-pay expenditure due to suspension of services and reduced activity (this was partly offset by a shortfall income from charges to other health boards, again as a result of the Covid-19 pandemic)
- unspent funding in budget reserves which does not meet the criteria for earmarking.

**39.** Scottish Government provided the IJB with financial support for Covid-19 related costs including support for savings which were not fully delivered in recognition of the impact of the pandemic. This additional support contributed greatly in the IJB returning an overall underspend for the year.

**40.** In total funding of £15.760 million was received in respect of Covid-19 from Scottish Government in 2020/21. Of this amount, £2.750 million was carried forward into 2021/22 as earmarked reserves to comply with the spending conditions specified by Scottish Government. The £1.089 million surplus shown in the accounts is after this transfer to reserves.

**41.** A report was presented to the IJB meeting on 16 June 2021, outlining the Covid-19 costs which were incurred in 2020/21. This included details on all year end accruals. It also included information on the Covid-19 funding income and the impact on reserves.

## The IJB has a medium-term financial plan but is yet to develop a longer-term plan

**42.** Medium and longer-term planning is an important element of good financial management. The IJB has developed a medium-term budget outlook plan covering a three-year period (2022/23 to 2024/25). This report was considered by the IJB at its meeting on 16 June 2021.

**43.** The plan includes assumptions about future inflation levels, funding and cost and demand pressures. It also sets out the financial position under three different scenarios i.e., best case, mid-range, and worst case. The medium-term outlook does not reflect any implications of Covid-19 costs and assumes that these costs will continue to be met with funding from Scottish Government. The IJB receive regular updates advising them of any revisions to the budget outlook.

**44.** The IJB has not developed any longer-term plans which go beyond 2024/25. Management have acknowledged that consideration should be given to the longer-term and its likely to become more difficult in the future to distinguish between Covid-19 and non-Covid-19 related activity.

**45.** Management believe that this combined with considerable uncertainties about future funding would render longer-term forecasts unreliable and would not be a sound basis for making decisions. Therefore, medium-term financial planning is considered appropriate for the IJB at present and longer-term financial planning is an aspiration, dependent to some extent upon increased certainty in respect of future funding for the sector.

## The IJB is forecasting an overspend against budget in 2021/22

**46.** The IJB approved a balanced budget for 2021/22 at its meeting on 31 March 2021. The budget gap for 2021/22 within the mid-range scenario was £4.134 million. Savings were identified in order to deliver a balanced budget. These savings included an investment in financial sustainability of £0.517 million.

**47.** The budget monitoring report presented to the Finance and Policy Committee on 24 September 2021 shows a year-to-date overspend of £0.500 million in the period to 31 August 2021 and a forecast overspend of £0.990 million for 2021/22.

**48.** As soon as an overspend is predicted the Chief Officer and Chief Financial Officer are required to identify the cause of the forecast overspend and prepare a financial recovery plan. An overspend was first identified in the budget monitoring report presented to Finance and Policy Committee on 27 August 2021.

**49.** The recovery plan was formally approved at the meeting of the IJB on 15 September 2021.

## Significant budget gaps in 2022/23 to 2024/25

**50.** The medium-term budget outlook (2022/23 to 2024/25) was updated and presented to the IJB at its meeting in June 2021. A significant budget gap was identified over the next three years ([Exhibit 3](#)).

### Exhibit 3

#### Medium-term outlook

	2022/23 £m	2023/24 £m	2024/25 £m
Best case	(2.196)	(3.027)	(3.878)
Mid-Range	2.371	6.316	10.695
Worst Case	9.181	18.600	28.367

Source: Argyll and Bute Integration Joint Board

**51.** In the mid-range scenario, the IJB budget gap estimated over the three-year period 2022/23 to 2024/25 is £19.382 million with a gap of £2.371 million in 2022/23. It is recognised that there is significant uncertainty in respect of future resource allocations to the HSCP at present.

**52.** Looking further ahead the IJB is facing significant budget challenges assuming a mid-range (most likely) scenario as illustrated in [Exhibit 3](#). It is important therefore that, in future years, the IJB does take action to operate within planned budgets and deliver required savings. The transformation and savings programme is the main way in which the IJB seeks to balance its financial position.

## Savings targets remaining challenging for the IJB

**53.** Savings are vital in ensuring that any budget gaps are bridged, and financial balance is maintained. In order to balance planned expenditure with the resources delegated to it, the IJB has consistently set ambitious savings targets in recent years. The IJB has failed to achieve the planned level of recurring savings in full. However, significant progress has been made in delivering efficiencies and improving the governance and reporting in respect of the savings and transformation programme. In 2020/21 there was a shortfall in savings delivery of £2.649 million which was covered in full by Scottish Government Covid-19 support.

**54.** As at the end of July 2021, £4.212 million of the £9.335 million savings target had been achieved. This is around 45% of the target. It is forecast that £7.328 million in savings will be delivered in 2021/22 (78%). However, a remaining shortfall of £2.007 million in savings is forecast for 2021/22.

**55.** Management have recognised that slippage within the savings programme is contributing to the forecast overspend against budget detailed previously in paragraph 47.

**56.** It is crucial that efforts to deliver the agreed savings are continued. In 2020/21 undelivered savings were met by Scottish Government support and this may not be the case for future years.

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## Recommendation 1

Reinforce and reiterate the need to maintain financial discipline across all service areas to support measures aimed at managing expenditure and bringing financial performance into recurring balance.

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### The underspend of £1.089 million was repaid to Argyll and Bute Council

**57.** In line with approved Scheme of Integration, Argyll and Bute Council has allocated additional funding to the IJB to cover year-end deficits over the last three financial years. An agreed repayment plan was put in place over a four-year period for the IJB to repay this additional funding. During 2020/21, £1.500 million was repaid by the IJB to the Council as part of the planned funding arrangements for the year and in line with the repayment plan.

**58.** The Council had previously agreed with the IJB, that in the event of the IJB returning an underspend in 2020/21 or any future years, that the Council will seek earlier repayment of outstanding debts. Therefore, an additional £1.089 million was repaid based on the year end outturn position of the IJB and this means that the 2017/18 overspend has now been fully repaid ahead of schedule.

**59.** Following the confirmation of the underspend for 2020/21. The Council's Policy & Resources Committee considered and agreed the repayment profile at its meeting in May 2021. The profile of remaining payments is detailed in [Exhibit 4](#).

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### Exhibit 4 Repayment of overspend to Argyll and Bute Council

	Repayment 2018/19 Overspend £m	Repayment 2019/20 Overspend £m	Total Repayment £m
2021/22	0.200		0.200
2022/23		0.900	0.900

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2023/24	0.493	0.407	0.900
2024/25		0.759	0.759
<b>Total</b>	<b>1.593</b>	<b>1.166</b>	<b>2.759</b>

Source: Argyll and Bute Integration Joint Board

## Earmarked Reserves increased by £5.981 million in 2020/21

**60.** The IJB operates one reserve, a General Fund reserve which is a resource backed reserved to be used to fund expenditure. The General Fund had a closing balance of £6.586 million as at 31 March 2021. This was an increase of £5.981 million from the prior year.

**61.** A new earmarked reserve was created in year for Covid-19 support. As outlined in paragraph 40, £2.750 million of this is for Scottish Government funding which was carried forward into 2021/22. An earmarked reserve of £1.793 million for Primary Care Transformation is the second largest earmarked balance. The outturn surplus of £1.089 million is after the transfers to these reserves.

## Financial systems of internal control operated effectively

**62.** The IJB is reliant on the systems of its partner bodies, NHS Highland and Argyll and Bute Council, for its key financial systems, including ledger and payroll. All IJB transactions are processed through the respective partners' systems and all controls over these systems are within the partner bodies, rather than the IJB.

**63.** As part of our audit approach, we sought assurances from the external auditor of NHS Highland and Argyll and Bute Council (in accordance with ISA (UK) 402) and confirmed there were no weaknesses in the systems of internal controls for either the health board or the council.

## Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

**64.** The IJB does not maintain its own policies relating to the prevention and detection of fraud and error but instead depends on those in place at its partnership bodies. We reviewed the arrangements in place at Argyll and Bute Council and NHS Highland and found them to be adequate. The IJB has a Code of Conduct in place to which members subscribe and the Members' Registers of Interest is publicly available on the Board's website.

**65.** Appropriate arrangements are in place for the prevention and detection of fraud and error. We are not aware of any specific issues we require to bring to your attention.

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## 3. Governance, transparency, and Best Value

The effectiveness of scrutiny and oversight and transparent reporting of information. Using resources effectively and continually improving services.

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### Main judgements

The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the Board. Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively.

The IJB has put in place appropriate arrangements to demonstrate the achievement of Best Value.

Performance indicators and associated targets have been kept under review to ensure they reflect the impact of Covid-19 on methods of service delivery and the associated outcomes. The IJB should continue to regularly review these arrangements, to ensure key indicators remain appropriate.

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### Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

**66.** The IJB has made changes to its governance arrangements in response to the pandemic. These have been detailed in the Annual Governance Statement in the annual accounts.

**67.** All IJB meetings and committees took place on via remote conferencing in 2020/21. Members of the public were able to attend meetings and the recording of the meeting was published alongside the minutes.

**68.** In March 2020, the IJB agreed a delegation of powers to the Chief Officer for the event of emergencies. These powers enabled the Chief Officer to instruct executive action on any matter for the duration of the Covid-19 emergency in consultation with the Chair or Vice Chair of the Board. Such matters would then be subsequently reported to the Board when possible. This delegation was not utilised in 2020/21, however it is still in place.

**69.** We concluded that the revised arrangements were appropriate and adequate under the current circumstances, and they support standards of good governance and accountability. Meetings continue to be held in a virtual

environment, in line with Scottish Government guidance for safer workplaces during the pandemic.

## Changes in senior officers

**70.** There have been changes to senior officers at the IJB. The Chief Officer left their post on 31 March 2021. The post was filled on an interim basis from 1 April until 3 May 2021 by the Deputy Chief Officer. Fiona Davies was appointed as Interim Chief Officer on 4 May 2021 for a period of up to one year. The IJB plan to undertake a recruitment process to recruit a new Chief Officer on a permanent basis.

**71.** The Chief Financial Officer left the IJB on 30 June 2021. The post was filled on an interim basis by the Deputy Chief Officer. A new Chief Finance Officer (James Gow) has been recruited and joined the IJB on 9 August 2021.

**72.** It was highlighted in Audit Scotland's Local Government in Scotland Financial Overview 2019/20 report that instability of leadership continues to be a challenge for many IJBs in Scotland. There is a risk that the transformational changes may lose momentum with the changes in key officers.

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## Recommendation 2

Ensure strategic and operational arrangements continue to build momentum with transformational changes despite changes in key officers.

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## Arrangements are in place to secure Best Value

**73.** Integration Joint Boards have a statutory duty to have arrangements to secure Best Value. To achieve this, IJBs should have effective processes for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

**74.** The IJB has set out its approach to Best Value through a clear and concise statement within the Annual Governance Statement included in the 2020/21 annual accounts. Also, a short summary detailing progress against the eight best value themes was provided in the Annual Governance Statement.

**75.** The Annual Performance Report for 2019/20 was approved by the IJB on 25 November 2020 and sets out how the IJB went about fulfilling its obligations for Best Value in 2019/20. The Annual Performance Report for 2020/21 is scheduled to be approved by the IJB in November 2021.

## Review of Adult Social Care Services

**76.** An independent review of adult social care services was published in February 2021. This was requested by the Scottish Government in September 2020 with the primary aim of the review being to recommend improvements to adult social care services in Scotland. The review made a number of recommendations including the set-up of a National Care Service for Scotland

that is equal to the NHS and that self-directed support must work better for people with decisions being based on their needs, rights, and preferences.

**77.** The IJB has reviewed the consultation document in detail and is in the process of formulating a response to the consultation. It is also actively engaged in discussions with key stakeholders, including Argyll & Bute Council and Highland Health Board in respect of the potential implications of the review.

### **Performance management arrangements are effective with indicators and targets kept under review**

**78.** Performance reports are presented to the board on a quarterly basis. Performance reporting focussed on reporting against the National Health and Wellbeing Outcome Indicators.

**79.** The standard format performance reports were suspended between April to December 2020, given that indicators had been affected by the pandemic.

**80.** A report on performance was reviewed by the IJB at its meeting on 27 January 2021. At this meeting, the temporary suspension of reporting against the HSCP Health and Wellbeing Outcome Indicators was approved. Focus was also changed to reporting for Covid-19 activity and the remobilisation of health and social care services.

**81.** Although the normal performance reporting processes has been temporarily suspended, the IJB has ensured effective arrangements are in place for managing and reviewing performance. The IJB should continue to regularly review these arrangements, in particular to consider at what point the organisation should re-engage reporting against the HSCP Health and Wellbeing Outcome Indicators and to ensure key indicators remain appropriate.

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## **Recommendation 3**

**Regularly review performance reporting arrangements, in particular to reconsider at what point the organisation should re-engage reporting against the HSCP Health and Wellbeing Indicators and to ensure key indicators remain appropriate.**

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### **National performance audit reports**

**82.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21 we published some reports which may be of direct interest to the IJB as outlined in [Appendix 3](#).

# Appendix 1

## Action plan 2020/21

### 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Financial Sustainability</b></p> <p>The IJB has a medium-term financial plan in place and the projected budget gap for the three-year period of 2022/23 to 2024/25 is <b>£19.382m</b> with a gap of <b>£2.371m</b> occurring in 2022/23 under mid-range scenario planning.</p> <p>In the shorter term, as at 31 August 2021, the IJB is forecasting an overspend of £0.990m for 2021/22 primarily due to slippage in delivering savings.</p> <p><b>Risk</b></p> <p>The IJB continues to fail to operate within agreed/planned budgets and fails to meet savings targets on a recurring basis.</p>	<p>Reinforce and reiterate the need to maintain financial discipline across all service areas to support measures aimed at managing expenditure and bringing financial performance into recurring balance.</p> <p><a href="#">Paragraphs 50-56</a></p>	<p><b>Management response:</b> The IJB recognises the importance of operating in a financially sustainable way. It continues to prioritise service transformation and its efficiency savings programme in order to achieve this. Ensuring this is communicated and understood throughout the management structure is an on-going priority.</p> <p>The current year performance, and longer-term financial outlook will be formally discussed monthly at ELT. This, along with engagement between budget holders, service improvement officers and finance teams ensure on-going robust monthly reporting and review of financial performance. A collaborative approach to the development of new savings proposals will also help ensure principles of good financial management are embedded.</p> <p><b>Responsible officer:</b> Head of Finance &amp; Transformation</p> <p><b>Agreed date:</b> 31 March 2022</p>
<p><b>2. Governance – Changes to Key Officers</b></p> <p>There has been significant changes in senior officers at the IJB.</p> <p>A new interim Chief Officer joined the IJB in May 2021. A</p>	<p>The IJB should ensure they continue to build momentum with transformational changes despite changes in key officers.</p> <p><a href="#">Paragraphs 70-72</a></p>	<p><b>Management response:</b> The risk in respect of turnover of key staff is recognised. Robust governance systems and processes are in place to ensure that the Transformation agenda continues to be prioritised. Progress and reporting has</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>new Chief Financial Officer joined the IJB in August 2021.</p> <p><b>Risk</b></p> <p>There is a risk that changes in key senior officers may impact the momentum of transformational changes.</p>		<p>continued as planned. Reviewing programme priorities is continuous as projects progress and new ones are identified. The HSCP is operating a distributed model in respect of the leadership of key workstreams, progress is therefore not dependent upon a small number of individuals.</p> <p>The Transformation programme will be reviewed by the management team to ensure it remains appropriate, that there is ownership of it and that it aligns with the revised Strategic Plan.</p> <p><b>Responsible officer:</b> Head of Finance &amp; Transformation</p> <p><b>Agreed date:</b> 31 January 2022</p>
<p><b>3. Performance Reporting</b></p> <p>Standard performance reporting has been revised due to the Covid-19 pandemic. The IJB have temporarily suspended performance reporting against the HSCP Health and Wellbeing Outcome Indicators. Focus was changed to reporting Covid-19 activity and the remobilisation of health and social care services.</p> <p><b>Risk</b></p> <p>There is a risk that performance reporting is not tailored effectively following the Covid-19 pandemic.</p>	<p>Regularly review performance reporting arrangements, in particular to reconsider at what point the organisation should re-engage reporting against the HSCP Health and Wellbeing Indicators and to ensure key indicators remain appropriate</p> <p><a href="#">Paragraphs 78-81</a></p>	<p><b>Management response:</b> The HSCP has continued to monitor performance in respect of key indicators in line with national priorities during the pandemic. A new integrated performance reporting framework has been developed. This is due to be implemented in early 2022. This framework will ensure that the HSCP monitors and reports on performance against key indicators and national priorities in a comprehensive and flexible way.</p> <p><b>Responsible officer:</b> Head of Strategic Planning, Performance and Technology</p> <p><b>Agreed date:</b> 31 March 2022</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Financial Sustainability</b></p> <p>The IJB budget in 2019/20 was overspent for the third consecutive year in a row primarily due to slippage in delivering savings.</p> <p><b>Risk</b></p> <p>The IJB continues to overspend and is unlikely to achieve financial balance in the medium term.</p>	<p>Reinforce and reiterate the need to maintain financial discipline across all service areas to support measures aimed at managing expenditure and bringing financial performance into recurring balance.</p>	<p>Ongoing/Superseded – See Appendix 1 – Action plan point 1.</p>
<p><b>2. Savings Plans</b></p> <p>Savings are not being delivered at enough pace to achieve recurring financial balance. The position was exacerbated by the need to prioritise the response to Covid-19 resulting in less focus on savings delivery.</p> <p><b>Risk</b></p> <p>Savings deliver continue to fall behind target.</p>	<p>Inject more pace and vigour into actions designed to deliver savings in line with financial plans and to support efforts aimed at achieving financial balance.</p>	<p>Ongoing/Superseded – See Appendix 1 – Action plan point 1.</p>
<p><b>3. Efficiency savings</b></p> <p>The finance report submitted to the IJB at its March 2019 meeting forecast that the budget gaps for 2020/21 and 2021/22 were £7.0 million and £14.3 million respectively. Savings plans have yet to be fully developed to address these gaps.</p> <p><b>Risk</b></p> <p>The IJB may not be able to identify and deliver savings plans that will cover funding gaps in the medium-term.</p>	<p>As a priority, the IJB should develop and agree savings plans to bridge funding gaps in the medium term.</p>	<p>Ongoing/Superseded – See Appendix 1 – Action plan point 1.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>4. Workforce Planning</b></p> <p>In previous years we have reported that the IJB needs to develop an overarching workforce plan. A workforce plan has yet to be finalised and approved. Also, such a plan cannot be developed in isolation but needs to be integrated with financial and service plans.</p> <p><b>Risk</b></p> <p>In the absence of integrated planning, the IJB will be unable to manage its staff resources effectively.</p>	<p>Workforce planning should be progressed and integrated with service and financial planning.</p>	<p>Ongoing</p> <p><b>Management response:</b> An interim workforce plan has been prepared and submitted to the Scottish Government. Further development of the plan is being progressed in partnership with NHS Highland.</p> <p>Additionally, workforce establishment setting is underway in respect of the Safe Staffing Act requirements. New staffing structures are also being implemented in respect of the Primary Care Improvement programme.</p> <p>Robust processes are in place to ensure that the budget is aligned to staffing establishments. Staff spend against budget, recruitment, vacancy savings and the use of supplementary staffing are all monitored and managed robustly.</p> <p>Agreed action is to further develop the workforce plan.</p> <p><b>Responsible officer:</b> Head of People Planning, Analytics and Reward</p> <p><b>Agreed date:</b> 30 June 2022</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 report and accounts and those relating our wider responsibility under the Code of Audit Practice.

### Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journals including authorisation and approval.</p> <p>Review of accounting estimates.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of cut-off procedures at the year-end to confirm that income and expenditure are accounted for in the correct financial year.</p>	<p>Significant journals processed by the IJB were reviewed, with no issues identified.</p> <p>No significant accounting estimates were made by the IJB in the preparation of the annual accounts.</p> <p>Testing of regularity and cut-off assertions as well as accruals and prepayments was carried out by the external auditors of the IJB's partner bodies. No issues were identified which would have an impact on the processing of IJB transactions or our audit approach.</p>

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>2. Financial Management</b></p> <p>The forecast outturn position (as at 28 February 2021) for 2020/21 is a predicted underspend of <b>£2.016m</b>. <b>This consists of a Social Work underspend of £295k and a Health underspend of £1.721m.</b></p> <p>While the IJB is projecting to deliver an underspend for the first time in four years, there is still considerable uncertainty around the ongoing financial impact of the pandemic.</p> <p>A savings plan is in place which is monitored by the Board. As at February 2021, <b>£6.318m</b> (61%) of the 2021/22 savings target of <b>£10.386</b> has been delivered. The projected savings for 2020/21 are <b>£7.661m</b> (74%).</p>	<p>Review and assess progress in delivering the Financial Recovery Plan.</p> <p>Assess the impact of grip and control measures in improving the financial position.</p> <p>Monitor savings plans to assess progress in delivering savings.</p>	<p>Budget monitoring reports were presented regularly to meetings of the IJB and the Finance and Policy Committee.</p> <p>There was a year-end underspend of £1.089 million.</p> <p>However, there was a shortfall in savings delivery of £2.649 million which was covered in full by Scottish Government Covid-19 support.</p> <p>Challenges still exist going forward.</p>
<p><b>3. Financial Sustainability</b></p> <p>The IJB has a medium-term financial plan in place and the projected budget gap for the three-year period of 2021/22 to 2023/24 is <b>£9.446m</b> with a gap of <b>£4.134m</b> occurring in 2021/22 under mid-range scenario planning.</p> <p>As per Audit Scotland's <a href="#">Local Government in Scotland Financial Overview 2019/20</a>, the impacts of Covid-19 could be significant and the medium-term financial plans will need to be revised to reflect this.</p>	<p>Continue to assess and review financial plans to ensure that due consideration is given to the impact of Covid-19 on financial planning.</p>	<p>The IJB continues to operate on a three-year, medium-term financial plan. A revised plan was approved by the committee in June 2021 covering the period 2022/23 to 2024/25.</p> <p>Considering the above, and the fact that the IJB is funded on an annual basis, the medium-term financial planning in place is appropriate.</p> <p>Longer-term financial planning should remain as an ambition for the IJB's financial sustainability.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>4. Governance – changes to key officers</b></p> <p>The Chief Officer and Chief Financial Officer are leaving the IJB in March and June of 2021, respectively. There is a risk that the transformational changes may lose momentum with the change in key officers.</p> <p>Maintaining the momentum is crucial for the IJB as part of its commitment to continuous improvement.</p>	<p>Assess progress in recruiting and onboarding Chief Officer and Chief Financial Officer.</p> <p>Review and consider matters reported to the Finance &amp; Policy Committee and the Board, relating to transformation and delivery of savings.</p>	<p>A new interim Chief Officer joined the IJB in May 2021.</p> <p>A new Chief Financial Officer joined the IJB in August 2021.</p> <p>The IJB should ensure they continue to build momentum with transformational changes despite changes in key officers.</p>

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# Appendix 3

## Summary of national performance reports 2020/21

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### June

[Local government in Scotland Overview 2020](#)

### July

[The National Fraud Initiative in Scotland 2018/19](#)

### January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

### February

[NHS in Scotland 2020](#)

### March

[Improving outcomes for young people through school education](#)

# Argyll & Bute Integration Joint Board

## 2020/21 Annual Audit Report

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