



Perth and Kinross Integration Joint Board

Annual Audit Report to the Members of Perth and Kinross Integration Joint Board and the Controller of Audit for the year ended 31 March 2021

14 September 2021

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Perth and Kinross Integration Joint Board ("the IJB") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

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Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to the IJB, telephone 0141 300 5890, email: Michael.Wilkie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG, by telephoning 0131 527 6682 or email hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Audit conclusions

We issued an unqualified audit opinion on the annual accounts of Perth and Kinross Integration Joint Board (“the IJB”) following their approval by the IJB on 14 September 2021.

We identified two significant risks in the audit of the IJB, which relate to fraud risk from management override of controls and fraud risk from revenue and expenditure recognition, (the latter of which was rebutted). As documented on pages 15 and 16, we have concluded satisfactorily in respect of the significant risks and audit focus areas identified in the audit strategy document.

We concurred with management’s assessment that the entity remains a going concern for the 12 month period from September 2021, in compliance with the statutory requirement to prepare accounts on a going concern basis.

The annual accounts were received at the start of the audit fieldwork. We have no matters to highlight in respect of adjusted audit differences or our independence.

Financial management and financial sustainability

Since its inception, the IJB has experienced an ongoing funding deficit. This year, due to underspends, Scottish Government funding and unspent Covid-19 funding, there is a surplus on the provision of services available for future use.

The IJB faces ongoing financial pressures due to salary costs, price pressures and unknown future demand for services (including demand from Covid-19). We remain satisfied that the IJB is a going concern as a result of the integration scheme and the financial sustainability of the partners.

The Board approved of an initial one year budget for 2021/22 and the development of a three year financial plan at the end of 2020-21 which will help the IJB plan for future pressures, and will enable management to have valuable conversations when discussing future budget settlements. We consider the arrangements regarding financial management are effective.

The IJB’s arrangements for assessing and reporting on the impact of COVID-19 is considered appropriate. We also repeated concerns around the lack of a proportional financial risk sharing agreement which would support continued integration of services.

Executive summary (continued)

Financial position

The IJBs final operational outturn is a underspend against budget of £3.9 million for the year. This is split between a Health Services underspend of £0.961 m and Social Care underspend of £2.9 million. The IJB increased its reserves from £1.2 million to £13.9 million as a result of underspends , and Covid-19 related funding.

The integration scheme stipulates the default position in an overspend scenario. This year the underspend delivered by the IJB means there is no additional contributions required by either partner body, and partners continue to be bound to cover overspends for which they have operational responsibility, and this is expected to continue. Our recommendation of moving to a proportional risk sharing agreement has not been delivered in year, and continues to be reported as a grade one action point for 2021-22.

Governance and Transparency, and Value for money

The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board.

The annual performance report shows significant improvement with most of the indicators above the national average.

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Perth and Kinross Integration Joint Board (“the IJB”) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive. Our engagement has been extended by Audit Scotland to 2021-22 in order to mitigate any potential impact of COVID-19 on the process for the next period of appointment.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the IJB and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit and Performance Committee on 15 February 2021.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration areas such as financial performance and corporate governance.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) (“ISAs”) issued by the Financial Reporting Council and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

Scope and responsibilities (continued)

Accountable officer responsibilities

The Code sets out the IJB's responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to the Audit and Performance Committee, together with previous reports to the audit and performance committee throughout the year, discharges the requirements of ISA 260.

Financial position

Overview

The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that integration joint boards should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the IJB should therefore be prepared in accordance with the 1973 Act and the 2020-21 Code of Practice on Local Authority Accounting in the United Kingdom (“the CIPFA Code”).

The Board is responsible for the strategic planning and delivery of health and adult social care services in Perth and Kinross. The Integration Scheme sets out those services the Board has delegated responsibility for, which includes ‘hosted’ services which are provided by the IJB on behalf of the other integration joint boards in the Tayside region, Dundee City and Angus.

Legislation empowers the Board to hold reserves. The integration scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. Financial management is discussed further on page 15.

| | | | |
|---|---|--|--|
| Funding contributions from Perth and Kinross Council £56.7 million (PY £54.1 million) | Funding contributions from NHS Tayside £186.9 million (PY £160.2 million) | Gross expenditure £230.8 million (PY £205.6 million) | Surplus on provision of services £12.7 million (PY Deficit £1.3 million) |
|---|---|--|--|

Financial position (continued)

IJB financial management overview

The IJB budget process usually begins in September each year with final presented to the Board for approval by March in advance of the financial year. Delegated baseline budgets for 2020-21 were compared to actual expenditure in previous years in order to build up the budget. Detailed forecasts have been prepared of anticipated salary, price and demand pressures along with the cost of meeting legislative changes and planned service developments.

The 2020-21 budget was set in March 2020 based on the understanding that the huge uncertainty over Covid-19 would be funded by additional income. This budget set out a very early indication of the expected COVID-19 expenditure and the Scottish Government funding to be received.

In respect of the 2021-22 budget setting process, the IJB participated in the Perth and Kinross Council (“the Council”) budget process in order to commence early discussion over funding and anticipated expenditure pressures. NHS Tayside (“NHST”) set an independent budget with funding implications managed by the IJB within the scope of the integration scheme.

The IJB's budget, published on 31 March 2020 forecasted a £1.2 million overspend on delivery of services. Despite the challenging year faced, the IJB reported a underspend of £3.9 million, which did not include the additional funding received for COVID-19. COVID-19 grants exceeded expenditure by £4.6 million, and are held as reserves for future years.

The prior year reserves generated through historic surpluses have been increased through the current year surplus of £12.7 million. As detailed on page 29, the available reserves of £13.9 million are retained for application against spending commitments. Management have earmarked these reserves for 2021-22, and is discussed further on page 29.

The Board does not have any fixed assets, nor does it directly incur expenditure or employ staff. The Chief Officer and the Chief Financial Officer are appointed officers of the IJB but are remunerated through the partner bodies. All funding and expenditure is delegated to the partner organisations and is recorded in the partner organisation's accounting records.

Financial position (continued)

2020-21 financial position

The annual accounts are prepared on a going concern basis. A surplus of £12.7 million was reported in the final outturn in June 2021 for the year ended 31 March 2021.

The outturn in 2020-21 was a underspend of £3.9 million which was an improvement when compared to the original budget deficit of £1.2 million. This is due to a variety of underspends that occurred during the year, and did not include Covid-19 related grants or funding.

Against social care services, where operational responsibility remains with the Council, actions from the financial plan and services unable to be delivered due to COVID-19 have offset this at the year end, resulting in an underspend of £2.9 million being reported.

Health services, where operational responsibility remains with NHS Tayside, delivered a £1.0 million underspend on budget.

| Expenditure | 2020-21 Budget (£m) | 2020-21 Actual (£m) | Over/(under) spend against budget (£m) |
|-------------------------------|---------------------|---------------------|--|
| Hospital and Community Health | 56.0 | 54.6 | (1.4) |
| Hosted Services | 15.4 | 15.0 | (0.4) |
| GP Prescribing | 27.0 | 27.0 | 0.0 |
| General medical services | 48.4 | 48.3 | (0.1) |
| Financial plan deficit | -1.2 | -0.2 | 1.0 |
| | | | |
| Health | 145.5 | 144.6 | (1.0) |
| Social Care | 57.0 | 54.1 | (2.9) |
| | | | |
| Total | 202.6 | 198.7 | (3.9) |

Source: 30 June 2021 – 2020-21 Financial Position report to the Board

Financial position (continued)

The health underspend is made up of the following significant variances:

- Older people services under spend of £0.9 million, partially as a result of a delay in investment in intermediate care beds (£0.4 million)
- Adult services underspend of £0.4 million, driven partially by vacancies in General Adult Psychiatry and Learning Disability Teams.
- Prescribing underspend of £0.6 million in line with budget as a result of slower volume growth (demand for services) offset by higher price growth.

Comprehensive income and expenditure statement

As noted previously, the integration scheme set out some services that are devolved to an IJB (“hosted services”), rather than split it across the three IJBs; Perth and Kinross, Dundee and Angus, for which it partners. This results in differences between the budget that management and members receive, which show the hosted services the IJB are responsible for, and the comprehensive income and expenditure statement (“CIES”). The two therefore are not directly comparable, and the hosted services explain the significant differences between the two. The CIES includes the utilisation of reserves in order to achieve the year end position.

Financial position (continued)

Related party transactions

NHS Tayside receives the recurring baseline budget on behalf of the IJB and expenditure is drawn down through NHS Tayside. As PKC uses the baseline budget to deliver services, it invoices NHS Tayside directly for the services.

In total in the year there was a £22.1 million payment from NHS Tayside to PKC, this is included and explained within Note 8: Related Party Transactions. This relates to funding NHS Tayside receives from the Scottish Government being redirected to Perth and Kinross Council for delivery of some social care services.

In line with other IJBs nationally, there is a requirement to recognise funding from partners, and to recognise its commissioning expenditure, in order to disclose the gross cost of providing services. The related parties note details this gross cost of providing services, and gross income received from partners.

Balance sheet

The £13.9 million debtors balance at the year end increased as a result of significant additional Scottish Government COVID-19 funding and significant financial control by management. IJB 'cash' is held by the partner organisations due to the IJB not having a bank account, leading to a creditor to the IJB in the Partner's' Balance Sheet. The debtor balance is split with £11 million allocated to NHS Tayside (PY £1.2 million) and £2.9 million to the Council (PY £nil).

The debtor balance to Perth and Kinross Council is the total income less total expenditure with the Council, as adjusted on an accounting basis. These funds, in line with the current scheme of integration, will support social care activities going forward.

| Balance sheet | 2020-21 £000 | 2018-19 £000 |
|-------------------------------|-----------------|-----------------|
| Short term debtors | 13,900 | 1,159 |
| Net assets | 13,900 | 1,159 |
| Usable reserve : General fund | (13,900) | (1,159) |
| Total reserves | (13,900) | (1,159) |

Source: Unaudited annual accounts 2020-21

Audit conclusions

Audit opinion

Following approval of the annual accounts by the IJB Board, we issued an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2021, and of the surplus for the year then ended.

There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The IJB is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

There were no misstatements identified during the audit. An expanded basis of preparation in respect of going concern was included as a result of our audit.

Written representations

Our representation letter did not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £2.2 million for the IJB's financial statements. This equates to approximately 1% of gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the IJB, our performance materiality was £1.6 million. We report all misstatements greater than £105,000.

Financial statements preparation

Draft financial statements were published online in line with Section 195 of Local Government (Scotland) Act 1973, this included the management commentary and annual governance statement. In advance of our audit fieldwork we issued a 'prepared by management' request setting out a list of required analyses and supporting documentation. We received working papers of good quality, and signed complete draft financial statements were provided on 25 June 2021.

We recognise the significant efforts of the finance team given the ongoing COVID-19 pressures to deliver a set of accounts with no identified misstatements to us in accordance with the normal timeframes. The finance team were retasked with additional responsibility in respect of additional financial reporting requirements, workforce planning and third party sustainability payment administration. In this context, this represents a significant achievement.

Materiality and summary of risk areas (continued)

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Internal Auditor, who provides internal audit support to the IJB, and reviewed internal audit reports as issued to the Audit and Performance Committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended Audit and Performance Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks (pages 15 and 15 of this report):

- management override of controls fraud risk.

Other focus areas (pages 17 and 18 of this report):

- completeness and accuracy of expenditure; and
- financial sustainability (also a wider scope area).

Wider scope areas (page 23 of this report):

- financial sustainability;
- financial management;
- value for money; and
- governance and transparency

Significant risks

| Significant risk | Our Response | Audit conclusion |
|--|--|--|
| <p>Fraud risk from management override of controls</p> <p>Professional standards (ISA 240 The Auditor’s responsibilities relating to fraud in an audit of financial statements) require us to communicate the presumed fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> | <ul style="list-style-type: none"> – Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Board. – Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. – In line with our methodology, we will carry out appropriate substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organization's normal course of business, or are otherwise unusual. | <p><i>Our work did not identify any control overrides, or matters that required adjustment in the annual accounts or which require to be brought to attention.</i></p> |

Significant risks (continued)

| Significant risk | Our Response | Audit conclusion |
|--|--|---|
| <p>Fraud risk from income revenue recognition and expenditure (rebutted)</p> <p>Professional standards (ISA 240 and Practice Note 10 (“PN10”) Audit of financial statements of public sector bodies in the United Kingdom require us to make a rebuttable presumption that the fraud risk from revenue recognition and expenditure are significant risks.</p> | <ul style="list-style-type: none"> — The Board receives funding through requisitions to Perth and Kinross Council and NHS Tayside. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. — The Board issues directions to Perth and Kinross Council and NHS Tayside in order to direct those bodies to deliver services delegated by the Board. The Board make these directions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant. | <p><i>Our conclusion is that income and expenditure is appropriately stated, in line with the CIPFA Code.</i></p> |

We set out above the significant risks identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

Other focus areas



| Other focus area | Our response | Audit conclusion |
|--|---|--|
| Financing focus area | | |
| <p>Completeness and accuracy of expenditure</p> <p>The Board receives expenditure forecasts from Perth and Kinross Council and NHS Tayside as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding requisition income is not correctly captured.</p> | <p>—Our substantive audit will obtain support for gross expenditure included in Perth and Kinross Council and NHS Tayside’s accounting records. We obtained confirmations of expenditure from each of these bodies, including ledger confirmations of each of the disclosed services as detailed in the CIES.</p> | <p><i>We have concluded that that expenditure is appropriately recognized.</i></p> <p><i>No exceptions were identified in respect of expenditure testing and testing of high risk expenditure journals.</i></p> <p><i>Our testing of this exercise did not identify errors in expenditure.</i></p> |



| Other focus area | Our response | Audit conclusion |
|---|---|--|
| Financing focus area | | |
| <p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board given the challenging environment where funding is reduced and efficiency savings are required.</p> | <ul style="list-style-type: none"> — The Board receives funding from NHS Tayside and Perth and Kinross Council, and as part of an Integration Scheme. This scheme stipulates that any overspends by the Board will be funded by NHS Tayside and Perth and Kinross Council based on each body’s proportionate contribution in the financial year, or by the body with operational responsibility as a default position. This gives the Board comfort with regards to overspends, however, there is a risk going forward regarding ongoing budget balance, specifically in the context of both COVID-19 and challenging NHS and Council budgets. — We have considered the Board’s financial planning, reserves strategy, and Board’s use of reserves, concluding on the appropriateness of these in our annual audit report. — See page 18 for further information regarding the financial sustainability wider scope. | <p><i>We consider that the IJB is financially sustainable. The IJB has detailed plans in place over the medium term to consider how services will be provided in future years. These take into consideration known and expected budget pressures. These have been completed in even greater detail in 2020-21 due to the demands of the Scottish Government in producing the Re-mobilisation plan. This valuable piece of work ensures that the IJB has considered a range of possible scenarios and has mitigation measures in place.</i></p> <p><i>Work is underway to refresh the three year financial plan covering 2022-23 to 2024-25 in order to prepare the 2022-23 budget.</i></p> |

Management reporting in financial statements

| Report | Summary observations | Audit conclusion |
|-------------------------------------|---|--|
| <p>Management commentary</p> | <p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We consider the annual governance statement to ensure compliance with the Local Government finance circular 10/2020 which updated the requirements in response to the COVID-19 pandemic.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts.</p> | <p><i>The information contained within the management commentary is consistent with the annual accounts.</i></p> <p><i>We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015, and 10/2020 and are content with the proposed report.</i></p> |

Management reporting in financial statements

| Report | Summary observations | Audit conclusion |
|-----------------------------------|---|---|
| <p>Remuneration report</p> | <p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p> | <p><i>The information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made in line with the 2014 regulations.</i></p> <p><i>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</i></p> |

Management reporting in financial statements (continued)

| Report | Summary observations | Audit conclusion |
|---|--|---|
| <p>Annual governance statement</p> | <p>The statement for 2020-21 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the IJB's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework.</p> <p>We consider the annual governance statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the delivering good governance in local government framework.</p> <p>We considered whether the annual governance statements adequately described the changes arising in governance as a result of the COVID-19 pandemic.</p> | <p><i>We consider the governance framework and revised annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.</i></p> <p><i>We were satisfied with the proposed disclosure over the governance arrangements and the vacancy on the Board which was filled in April 2021.</i></p> |

Qualitative aspects and future developments

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code.

There were no accounting estimates identified as part of our audit.

Financial statement disclosures were considered against requirements of the CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

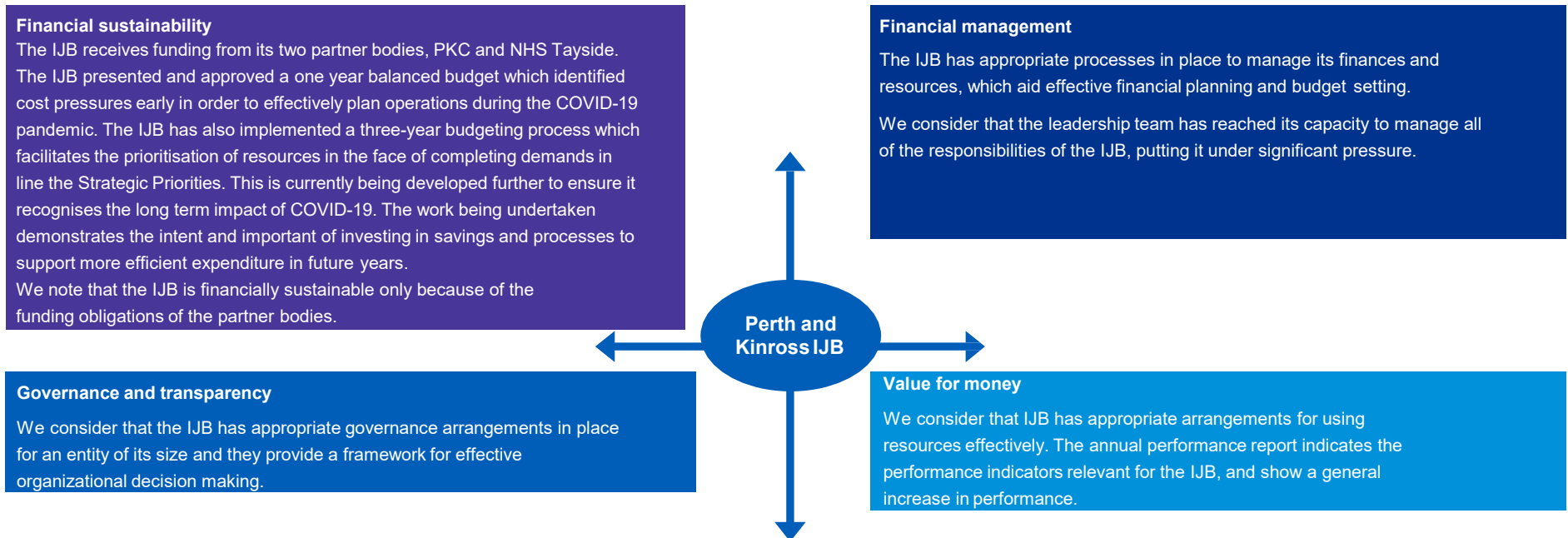
There are no significant future accounting or audit developments relating to the financial statements of the IJB.

Audit dimensions introduction and conclusions

The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability; financial management; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we considered the work carried out by other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.



Financial management

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

Budget setting process

Management continue to work with the partner bodies to discuss, develop and set an achievable budget, identifying pressures in order to manage overspends and the process was significantly improved for 2021-22 (see page 18).

Financial recovery plan

The integration scheme requires that where overspends are identified, management prepare a deficit recovery/action plan to be approved by the Board prior to any actions implemented. Management prepared the financial recovery plan (“FRP”) in order to demonstrate a response to this requirement.

There was no financial overspend in 2020-21 in either the IJB’s social care activities nor health care activities, which represents ongoing efforts by management to manage finances. In addition, significant funds received from the Scottish Government in order to meet the needs of the community during the COVID-19 pandemic. Unused funds have been recognised as earmarked reserves as at the end of the financial period. There was operational underspend in the Health Reserves Fund (£1.0 million) and Social Care Operations (£2.9 million).

Financial management (continued)

Budgetary reporting

The IJB's financial management comes under a reasonable degree of scrutiny, with budgets monitored at IJB, local authority and NHS level.

The IJB produces finance updates which are taken to both the Board and the Audit and Performance Committee ("APC"). Management aims to report the financial position to the IJB at each meeting throughout the financial year. This contains sufficiently detailed information to allow members to understand budget variances, and to respond to issues.

In line with best practice, management have presented a finance update to all Board meetings (these have taken place virtually due to the pandemic).

Budget outturn and 2020-21 performance is discussed further on page five.

Financial regulations

The IJB has standing financial regulations which determine how spend can be authorized. The highest budget virement that can be approved by the Chief Officer is £10,000, with anything above that level having to go through the Board, which conducts its meetings in public. We consider this to be an appropriate level for escalation.

The Chief Financial Officer is responsible for ensuring that appropriate financial services are available to the IJB and the Chief Officer.

Financial management (continued)

Capacity and service transformation

The section 95 officer of the IJB is the Head of Finance and Corporate Services, who has appropriate status within the IJB and access to the partner chief executive officers and Board members.

In 2018-19, we reported that the Chief Officer would review the current leadership and management arrangements to support ongoing and improved integration between the IJB and its partner bodies. We confirmed that this review had not been completed due to the operational impact of the COVID 19 pandemic and progress is ongoing. With increasing demand on senior officers time and resources, management should undertake reviews such as this to ensure that required resources to deliver integrated services are full identified and sourced.

The integrated finance function consists of the Head of Finance and Corporate Services who has oversight of financial management resources transferred by NHS Tayside and Perth and Kinross Council. In addition, NHS Tayside provide financial support for specific service areas such as Prescribing, and Primary Care. The Partnership Finance Manager provides significant support to the day to day financial management and control within the IJB.

COVID-19 impact assessment

The worldwide COVID-19 pandemic has understandably had an impact on a wide ranging number of topics across the globe. As part of our wider scope reporting in respect of the IJB, we considered the impact on governance and financial sustainability.

As part of its response to COVID-19 pressures, the IJB participated in regular reporting to the Scottish Government detailing financial pressures. This covered both health and social care, being reported via NHS Tayside. The IJB was also required to complete a one year workforce plan for submission to the Scottish Government. This was a valuable undertaking and Management considered this process to be robust. The IJB also completed regular financial reporting in respect of Re-Mobilisation plans, planning the necessary actions to react to the impact of the pandemic, identifying new approaches to service delivery, redeploying staff and capturing additional costs.

Management reported significant work in respect of Delayed discharges to improve the path through hospitals for patients, and developed a Community Assessment Hub at Perth Royal Infirmary to improve the number of patients being supported.

Financial management (continued)

The IJB continues, through redesigning care, to analyse service expenditure in order to identify savings and efficiencies.

As part of the integration of services the IJB, along with the two other integration joint boards in the Tayside region, each manage a number of hosted services. Previously, the IJB have managed Inpatient Mental Health, however, at the direction of the Scottish Government in 2020-21 the operational management reverted from the Chief Officer of the IJB to another Director within NHS Tayside. This is explained within Note 7 of the accounts and represents a significant change of responsibility for the IJB.

Arrangements for the prevention and detection of fraud

We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the IJB's arrangements including policies and codes of conduct for council staff and elected members, whistleblowing, fraud prevention and fraud response plan.

We considered the arrangements in place for the prevention and detection of fraud to be adequate.

Conclusion

The IJB set a three year budget covering 2020-21 to 2022-23 on a balanced basis. This short term forecasting recognises the extreme level of planning uncertainty and the impact of COVID-19 on the capacity of its officers. Management are refreshing the three year financial plan for 2022-23 to 2024-25 which aims to deliver a financially balanced short term financial budget.

Overall financial capacity is appropriate for the purposes of delivering services and day to day management. However, there remains no specific strategic planning capacity within the IJB to inform and lead senior strategic planning capacity.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the IJB is planning effectively to continue to deliver its services. This is inherently a risk to the IJB given the challenging environment where funding is reduced in real terms and efficiency savings are required.

In assessing financial sustainability we consider whether the IJB is able to balance budgets in the short term and whether longer term financial pressures are understood and are planned for, as evidenced by the IJB's financial strategies and plans.

2021-22 budget process

On 9th December 2020, the IJB agreed to the development of a one year budget for 2021-22, based on the provisional budget agreed in March 2020. This recognised the ongoing emergency response to the Covid-19 pandemic, the limited capacity of officers and the difficulty in developing long term plans which effectively consider the long term opportunities and challenges brought about by the pandemic.

This budget was developed with significant engagement from members, with management providing two sessions on 24 November 2020, and 9 March 2021 to allow for member discussion.

Management presented the 2021-22 budget on 31 March 2021 which identified the need to deliver on savings and efficiencies to break even over the year. Any slippage in savings delivery would result in non-recurring funding being required.

Financial sustainability (continued)

Budgets and financial position

In 2019-20, management began the process of setting a full three year revenue budget which covered 2019-20, 2020-21 and 2021-22. This was updated in 2019-20 to include 2021-22 and significantly improved medium-term financial planning. The three year revenue budget for Health and Social Care was approved on 31 March 2020 and achieves a financial balance over the three years.

However due to the significant impact of COVID-19 these medium term forecasts were replaced by a one year budget for 2020-21 and for 2021-22. This was undertaken by management to ensure that stretched resources were being adequately utilised and providing value for money.

Management are continue to refresh their three year financial recovery plan for 2022-23 through to 2024-25 which allows for medium term financial forecasting.

Reserves strategy

The IJB approved a reserves policy in March 2017 which sets out the statutory and regulatory framework for reserves, the operation of these reserves and the role of the Chief Financial Officer in determining the adequacy of reserves held by the IJB. Management aspires to retain a general fund reserve of 2% of gross expenditure, or £4.0 million

The IJB had reserves of £13.9 million at the year end of which £1.2 million was not ringfenced or 0.5% of gross expenditure.

We discussed with management how the reserves strategy will be delivered. There is consideration of the need to achieve non-ringfenced reserves of 2% in 2021-22. In conjunction with pressures identified in the development of the three year plan, the achievement of this is accepted as challenging.

Recommendation one

Financial sustainability (continued)

Risk sharing

The integration scheme sets out the process to be followed should the IJB overspend against the agreed budget. The Chief Officer and Chief Financial Officer are expected to manage the budget to ensure that there are no overspends. Where an unexpected overspend is likely the Chief Financial Officer should agree corrective action to mitigate the overspend. Where this does not resolve the gap, agreement must be made between the partner bodies, in conjunction with the executive team, to agree a recovery plan to balance the budget.

Where this is unsuccessful and the IJB overspends at the year end, uncommitted reserves are applied to any overspend firstly and the remaining overspend is either met by an additional one-off payment from a partner. The integration scheme provides that for the first two years of financial operation (2017-18 and 2018-19) any overspend is met by the partner with operational responsibility.

This arrangement gives the IJB comfort that overspends will ultimately be met by the partner bodies. We note that it does not motivate collaborative working between the three parties. For example, overspends in a council-funded area of service may be driven by increased “high outcome” activity which delivers reduced demand in an NHS-funded area of service, given the benefits of “preventative care”. There is no consideration for this in the integration scheme.

Financial sustainability (continued)

From the third year (2019-20) onwards, the integration scheme states that any overspend may be allocated based on each partner's proportionate contribution to the IJB, and this suggests formal agreement between the partners is required. For 2020-21, we understand that there has been limited discussion between relevant partners in respect of the approach to be taken and there is no formal documentation of this arrangement. We note that this has been partially delayed due to COVID-19, however this has been raised as a recommendation since the 2018-19 audit.

Management confirmed that the integration scheme will be reviewed by the partners which may result in an alternative risk sharing arrangements being agreed, however, we reaffirm the importance of a proportionate arrangement to encourage efficient and effective integrated service delivery and as a minimum recommend formal agreement of the approach to risk sharing. The goal of integration is to deliver seamless and supported services to stakeholders, driven by partner commitment to drive value for money throughout the stakeholders journey. This recommendation is re-iterated despite the £12.7 million underspend recognised in 2020-21.

Recommendation two

Going Concern

The annual accounts are prepared on a going concern basis. Both partner bodies have identified their financial challenges and put in place savings plans. As appointed auditor to PKC we have reported positively on its financial management arrangements and its proactive monitoring of budgets and savings.

Management consider it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts, supported by factors including:

- The regulations governing the IJB include reference to the entity following appropriate accounting practice, which is the 2020-21 Code. This code states that the entity shall prepare accounts on a going concern basis
- The Integration Scheme provides that all overspends shall ultimately be met by the partner bodies. Given that the positions of NHS Tayside and Perth and Kinross Council are also going concerns, management believe that the partner bodies have sufficient ability to meet any liability that falls due.

We consider that the Scottish Government is likely to continue to support NHS Tayside due to service users' needs, and the legislation is place to ensure the Tayside region has an NHS health board. In light of this position, the strong management of resources and the commitment from the two partner organisations we concur with the going concern basis.

Financial sustainability (continued)

Financial sustainability

Management have provided four updates to Board members during the pandemic, with a further update to be provided at the end of September. Reporting to members was in addition to the regular financial assessments submitted to the Scottish Government, which covered both Health and Social Care elements via NHS Tayside.

In June 2021, the Chief Officer reported projected additional costs totalling £8.3 million as summarised below:

The costs in Social Care and Health service delivery for COVID-19 specific activities have been met by the Scottish Government and the IJB's expenditure reflects the additional costs incurred as a result of Covid-19. Throughout 2020-21, Perth and Kinross Council recognised pressures and costs highlighted by the IJB, and the IJB continue to work with the Council to plan and budget for these ongoing pressures.

Governance arrangements

As part of its response to the COVID-19 lockdown, there were some changes to the IJB's governance structure.

The Chief Officer was a member of both partners' Gold Command structure, which saw senior officers having authority to make decisions in response to a changing environment. Particularly at the Council, this included the use of emergency powers which were subsequently ratified by Council members.

The IJB have embraced virtual meetings quickly to ensure Board members have the same level oversight of management as they had prior to the pandemic. This is, in our opinion, is best practice.

Financial sustainability (continued)

| 20/21 Costs | £m |
|--|------------|
| Provider Sustainability Payments | 3.6 |
| Unachieved Savings | 1.2 |
| Additional FHS Payments – GP Practices | 0.6 |
| Additional Staffing | 0.6 |
| Loss of Income | 0.4 |
| Angus/Dundee Hosted Services * | 0.3 |
| Mental Health | 0.1 |
| Care at Home / Care Home | 0.3 |
| Personal Protective Equipment(PPE) | 0.2 |
| Prescribing | 0.2 |
| Additional Hospital Bed Capacity | 0.2 |
| Management Capacity | 0.1 |
| Support to Care Homes | 0.0 |
| Delayed Discharge Co-ordination | 0.0 |
| Other Community Care Provision | 0.1 |
| IT /Equipment | 0.1 |
| Communications | 0.0 |
| Prison Health * | 0.1 |
| Total Costs | 8.3 |

* IJB share of hosted service cost

Conclusion

The 2020-21 budget was set in March 2020 based on the understanding that the huge uncertainty over Covid-19 would be funded by additional income. This budget set out a very early indication of the expected COVID-19 expenditure and the Scottish Government funding to be received.

There is also a three year comprehensive income and expenditure budget in development for 2022-25 which reflects management's intent to support medium term financial planning. This will allow the IJB to better facilitate the extra community demands and significant Scottish Government funding provided.

Governance and transparency (continued)

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.

Governance framework

The integration scheme arrangement between PKC and NHS Tayside sets out the key governance arrangements. The Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the IJB and for monitoring the adequacy of these arrangements.

The Board and Audit and Performance Committee hold meetings on a regular basis throughout the year. We review minutes from each to assess their effectiveness. We also periodically attend meetings of the Audit and Performance Committee for the purpose of presenting our findings and statutory reports. From attendance at these meetings, we consider scrutiny to be effective. For 2020-21 all Board meetings were attended remotely by all participants.

Member instability affects the Board's ability (through understanding and experience) and capacity, to fully scrutinise, challenge and support management. It also inherently takes time for members to fully understand the IJB and its activities.

Management ensures that new members are appropriately trained, as highlighted on page 34. We have not identified deficiencies in member scrutiny and challenge during the year and it is clear that members are aware that their role is challenging and they have a steep learning curve to ensure that they can fully deliver on their role. The IJB has a significant period of adjustment to meet the needs of the community in the aftermath of the pandemic and is facing significant cost and demand pressures moving forward. Members will need to make important decisions moving forward around the ambitions of the Strategic Commissioning Plan, in particular the future shape and scale of service delivery. In this context, member continuity and experience is important.

Governance and transparency (continued)

The IJB used CIPFA Guidance: Delivering Good Governance in Local Government Framework to review its governance arrangements, and this included carrying out a self-assessment review of the IJB's governance arrangements. This provided assurance that key governance policies and arrangements are in place, and an improvement action was identified for any high or medium risk findings.

During March 2020, a working group of Board members and officers met to bring a review of the governance structure and Standing orders. The working group agreed to develop key themes. There has been some progress; there is now a member of the public on the Board, and another recognised as a substitute. However, there remains key differences in priorities between and within NHS and Council members which require compromise to deliver an improved framework based on the evolution of the IJB since inception.

Membership

We note that since inception of the IJB there has been significant change in membership. We included this as a low risk area in the 2017-18 report, and membership changes have continued. However the turnover of staff through 2020-21 has been far lower; 15 members have continued in office during 2020-21, with three new members, none of whom are voting members of the Board.

Internal audit

The IJB has an internal audit function which undertakes reviews at both the IJB level and the local authority level. NHS Tayside has its own internal audit function, however any reviews specific to the IJB are shared with the Board and Audit and Performance Committee.

The internal audit function is carried out by the Fife, Tayside and Forth Valley internal audit service, in conjunction with PKC's internal audit in its role as PKC internal auditors. From 1 April 2019, the internal audit function has been carried out by PKC's internal auditors, with the Chief Internal Auditor being selected from PKC. In July 2020, the Board approved the re-appointment of the Chief Internal Auditor.

Internal audit provides the IJB and section 95 officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.

The Chief Internal Auditor concluded in the 2020-21 annual audit report that sufficient work was completed during the year, to enable them to conclude that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system. We concurred with these findings and found no deficiencies.

Governance and transparency (continued)

Risk management

In 2016, the three IJBs within the Tayside area agreed a risk management strategy, in conjunction with their respective partner bodies. A strategic risk management framework and risk register were developed, which were considered at the Audit and Performance Committee in November 2018.

In 2020 a COVID-19 risk register was established to allow short-term prioritisation of Scottish Government funding. This specific risk register has now been amalgamated with the overall risk register as it has become clear that the IJB will be undertaking COVID-19 affected work for the foreseeable.

System of internal control

Perth and Kinross Council and NHS Tayside are the partner bodies. All financial transactions of the IJB are processed through the financial systems of the partner bodies and are subject to the same controls and scrutiny as the Council and Health Board, including the work performed by internal audit.

Due to the nature of the IJB, it has no procurement function, instead relying on the procurement functions of its partner bodies to deliver the services delegated to it. KPMG applied the principles of the area of focus to the IJB in order to assess how the IJB obtains its own assurances that procurement contracts falling within the IJB's remit are sufficiently controlled in respect of fraud and corruption.

Management do not include the risk of fraud or corruption on the risk register, but will continue to assess the risk going forward. Management are in a position where by the internal audit functions of its partner bodies also provide assurance to the Chief Internal Auditor of the IJB. Going forward there is also an agreement with the internal auditors of the partner bodies that all internal audit work completed that was relevant to the operations of the IJB will be shared with the IJB Board.

As part of its annual process, the IJB obtain assurances from its partner bodies over their own processes and procedures. Management agreed to amend this assurance letter specifically to cover the fraud and corruption risk that inherently exists in the partner bodies so that those charged with governance had assurance that partners had adequate systems and controls in place.

The IJB has obtained this assurance letter from both of the partner bodies that confirms their procurement practices are robust and mitigate fraud or corruption for 2020-21.

Governance and transparency (continued)

Fraud

Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by one of the partner bodies internal audit sections. Since the Board does not directly employ staff, investigations will be carried out by the internal audit service of the partner body where any fraud or irregularity originates. NHS Tayside can also call on the expertise of Counter Fraud Services provided through NHS National Services Scotland.

Audit Scotland area of focus: Fraud and corruption in procurement

As part of our audit strategy we have carried out work in respect of fraud and corruption within procurement. We have discussed and reviewed the IJB's processes to manage the risk from its partner bodies.

Conclusion

The IJB has effective scrutiny and governance arrangements, supported by joint internal audit staff from both partners, and with adequate focus on risk management. The IJB conducts its business in an open and transparent manner.

The arrangements in place to investigate and prevent fraud are appropriate.

Membership of the IJB remains unstable. Further changes to membership to voting members could significantly impair the IJB's ability to operate effectively.

Value for money

Value for money (“VfM”) is concerned with using resources effectively and continually improving services.

The Public Bodies (Joint Working) (Scotland) Act 2014 sets out a broad framework for creating integration authorities. This allowed boards a flexibility to enable them to develop integrated services that best suited local circumstances.

The integration scheme specifies the range of functions delegated by PKC and NHS Tayside to the IJB. The IJB is responsible for establishing effective arrangements for scrutinizing performance, monitoring progress towards their strategic objectives, and holding partners to account.

Performance indicators

As part of the IJB’s arrangements to consider value for money, management produce and present an annual performance report to the Board. The report links performance of the five IJB objectives against the nine national health and wellbeing outcomes as set out in the strategic commissioning plan.

Strategic and corporate planning

The Strategic Commissioning Plans Guidance published by the Scottish Government in 2015 sets out an expectation that developing and updating strategic plans should be part of an iterative, cyclical process. The IJB produced and approved a refreshed Strategic Commissioning Plan in 2019 that covers the period 2019-2022.

As part of the Scottish Government’s requirement for the IJB to report regularly on its Remobilisation Plan, management recognised the ability to link this plan to the Strategic Commissioning Plan’s (‘SCP’) objectives. As part of this, management have been able to report progress on both the SCP’s objectives and the Remobilisation Plan. Management remain committed to aligning the completion of fourth Remobilisation Plan with the SCP. Management report to public and members of the Board its progress on the SCP through its Annual Performance Report.

The plan aligns the Scottish Government’s nine national outcomes against the objectives of the IJB. The plan also highlights what residents of Perth and Kinross can expect from the refreshed plan.

Value for money (continued)

The partnership objectives cover:

- prevention and early intervention;
- person-centred health, care and support;
- working together with our communities;
- reducing inequalities and unequal health; and
- making best use of available facilities, people.

The annual report highlights the strength and weaknesses of the IJB against historic performance, and performance against the Scottish average. From a review of the annual performance report, the IJB is performing favourably compared to the Scottish average, and have largely improved against previous regional results.

Value for money in key decisions

The board considers and discusses difficult decisions throughout the year as appropriate. For example, the transformational change projects to prioritise. These are supported by options appraisals and business cases where appropriate.

Additionally the IJB has completed a one year workplan at the behest of the Scottish Government for 2020-21. The plan highlighted key gaps in corporate capacity which management continue to mitigate and fill where possible. This plan includes clear explanation for the overarching goal and planned solutions to deliver against the national outcomes. We have recommended management take the findings of the workforce plan and work towards filling these key gaps.

Recommendation three

Conclusion

Overall, we consider that the IJB has appropriate arrangements for using resources effectively and continually improving services.

The workforce plan was completed in the year and used by the Chief Officer to highlight key gaps in corporate capacity, and we are satisfied that management continue to work to resolve these gaps. We consider this work undertaken is important in order to ensure the effectiveness of the IJB and that officers are able to form strategic and corporate approaches for consideration by the IJB members.



Appendices

Appointed auditor's responsibilities

DRAFT

Appendix one

| Area | Appointed Auditor's Responsibilities | How We Have Met Our Responsibilities |
|---|--|---|
| Statutory duties | Undertake statutory duties, and comply with professional engagement and ethical standards. | <i>Appendix two outlines our approach to independence.</i> |
| Financial statements and related reports | <p>Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.</p> <p>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.</p> | <p><i>Page 12 summarises the opinions we have provided.</i></p> <p><i>Pages 19 through 21 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report</i></p> |
| Financial statements and related reports | Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required. | <i>Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.</i> |

Appointed auditor's responsibilities

DRAFT

Appendix one

| Area | Appointed Auditor's Responsibilities | How We Have Met Our Responsibilities |
|-------------------------------|---|---|
| Wider audit dimensions | <p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> — Effectiveness in the use of public money and assets; — Suitability and effectiveness of corporate governance arrangements; — Financial position and arrangements for securing financial sustainability; — Effectiveness of arrangements to achieve best value; and — Suitability of arrangements for preparing and publishing statutory performance information | <p><i>We have set our conclusions over the audit dimensions on page 39.</i></p> |

Auditor independence

Assessment of our objectivity and independence as auditor of Perth and Kinross Integration Joint Board (“the IJB”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

Independence and objectivity considerations relating to the provision of non- audit services

Summary of fees

We have considered the fees charged by us to the entity for professional services provided by us during the reporting period.

| Total fees charged by us for the period ending 31 March 2021 can be analysed as follows: | 2020-21 £ | 2019-20 £ |
|--|---------------|---------------|
| Audit of IJB financial statements | 21,580 | 20,950 |
| Total audit services | 21,580 | 20,950 |
| Non-audit services | - | - |
| Total | 21,580 | 20,950 |

Auditor independence (continued)

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

There were no non-audit services provided during the year to 31 March 2021.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the IJB.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.








This report is intended solely for the information of the IJB and should not be used for any other purposes.








We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully,

KPMG LLP

Required communications with the IJB Board

| Type | Response |
|--|---|
| Our draft management representation letter |  We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2021. |
| Adjusted audit differences |  There were no adjusted audit differences. |
| Unadjusted audit differences |  There were no unadjusted audit differences. |
| Related parties |  There were no significant matters that arose during the audit in connection with the entity's related parties. |
| Other matters warranting attention by the Audit and Performance Committee |  There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process. |
| Control deficiencies |  We did not test any internal controls during our audit, and therefore have no deficiencies to report. Management retain the responsibility for maintaining an effective system of internal control. |
| Actual or suspected fraud, noncompliance with laws or regulations or illegal acts |  No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit. |

| Type | Response |
|---|--|
| Significant difficulties |  No significant difficulties were encountered during the audit. |
| Modifications to auditor's report |  There were no modifications to the auditor's report. |
| Disagreements with management or scope limitations |  The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit. |
| Other information |  No material inconsistencies were identified related to other information in the annual report, management commentary and annual governance statement. The management commentary is fair, balanced and comprehensive, and complies with the law. |
| Breaches of independence |  No matters to report. The engagement team have complied with relevant ethical requirements regarding independence. |
| Accounting practices |  Over the course of our audit, we have evaluated the appropriateness of the IJB's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. |
| Key audit matters discussed or subject to correspondence with management |  The key audit matters (summarized on pages 15 and 16) from the audit were discussed with management. |

Recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2019-20 final audit and their current status.

| Grade | Number recommendations raised | Implemented | In progress | Overdue |
|--------------|-------------------------------|-------------|-------------|---------|
| Final | 3 | 1 | 2 | - |

We have provided a summary of progress against 'in progress' actions below, and their current progress.

| Finding(s) and risk(s) | Recommendation(s) | Agreed management actions | Status |
|---|--|--|--|
| 1. Achievement of reserves strategy | Grade two | | |
| The budget should reflect the intentions of management to build reserves in line with its reserves strategy, which will also require significant discussion and planning with its partner bodies. | We recommend the IJB and its partners work towards developing a plan to achieve the reserves outlined in its strategy. | <p>Management response: Agreed. To be developed in line with the three year financial plan in order to set out delivery of the reserves strategy aims.</p> <p>Responsible officer: Head of Finance and Corporate Services</p> <p>Implementation date: 31 March 2022</p> | <p>Partially Implemented</p> <p>The IJB is in a positive reserves situation due to an underspend of £12.7 million in the year. This is due to the exceptional Scottish Government COVID-19 funding, other government funding and underspends on budget.</p> <p>We recognise the significant achievement by management to present an initial one year COVID-19 impact balanced budget to the Board on 31 March 2021 and the development comprehensive three year budget to March 2025.</p> |

Recommendations (continued)

| Finding(s) and risk(s) | Recommendation(s) | Agreed management actions | Status |
|---|---|---|---|
| 2. Risk sharing agreement | Grade one | | |
| <p>The integration scheme states that any overspend incurred from 2018-19 onwards may be allocated on a proportionate basis of each partners contribution to the IJB. For 2019-20, there has not yet been any agreement between partners on how any overspend may be shared and we understand discussions have been limited.</p> <p>2020-21 update: We understand that there is a revision process underway of the integration scheme in line with Scottish Government requirements between the IJB and its partners. We will continue to assess progress against best value and effective integration arrangements.</p> <p>It is generally recognised that proportionate risk sharing facilitates effective integration.</p> | <p>We recommend that partners are requested formally agree the approach for overspends on an annual basis in advance of the financial year on which agreement is sought.</p> <p>Consistency of approach, and consideration of third party guidance should be included as part of the agreement.</p> | <p>Management response: A review of the full integration scheme is underway, and we will continue to assess changes and proposals from partners.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: 31 March 2022</p> | <p>Partially implemented</p> <p>No formally documented position has been reached with ongoing discussion between partners underway in respect of a full review of the integration scheme.</p> <p>Auditor response: We will continue to review this Grade One action point, and will report on progress as part of our 2021-22 annual audit report.</p> |

Recommendations (continued)

| Finding(s) and risk(s) | Recommendation(s) | Agreed management actions | Status |
|--|--|---|---------------------------------------|
| <p>3. Strategic and corporate planning capacity</p> | <p>Grade three</p> | | |
| <p>As reported on page 26 and 39, management have carried out implementing our recommendation to develop a workforce plan.</p> <p>Through discussion with management, there is a need to address the findings in the workforce plan, which include filling posts where key gaps in management's capacity have been identified.</p> | <p>It is recommended that management continues with its progress on filling the key gaps identified as part of its workforce plan.</p> | <p>Management response: Agreed</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: 31 March 2022</p> | <p>New recommendation for 2020-21</p> |

Prior Year Recommendations

| Finding(s) and risk(s) | Recommendation(s) | Agreed management actions | Status |
|---|---|---|--|
| 1. Strategic and corporate planning capacity | Grade one | | |
| <p>Although management understand the importance of having a strategic plan in place, there have been significant delays to the preparation of the plan mainly due to lack of capacity within the organisation.</p> <p>We also note that the IJB is currently developing a workforce plan. The revised deadline was 31 March 2019 having been deferred on several occasions. However, from discussion with management in September 2020, this continues to not be achieved.</p> <p>Continued changes in IJB membership reduce the level of experience and ability of members to adequately consider, challenge and support management proposals. In this context, the importance of officer capacity is enhanced.</p> <p>In addition, it was indicated as part of our 2018-19 work that the Chief Officer would undertake a review of current leadership and management arrangements in 2019, however, this has also been delayed. This recommendation is unchanged from 2018-19.</p> | <p>It is recommended that management:</p> <ul style="list-style-type: none"> — completes its planned review of current leadership and management arrangements to ensure sufficient strategic planning capacity.; and — prepares a workforce plan. | <p>Management response:</p> <p>Agreed. The wider organisational restructure has been delayed due to the global pandemic. However, the demands of the pandemic have also further highlighted the need for an enhanced corporate and strategic planning capacity. We are actively considering how we address and resource this, without awaiting a full restructure.</p> <p>The IJB is undertaking a review of the current position to develop a 3 year workforce plan which will be aligned with our Strategic Commissioning and mobilisation Plans. An initial draft will be completed by 14th September and will underpin our workforce plan which will be submitted to IJB in February 2021.</p> | <p>Implemented</p> <p>The workforce plan was prepared for the Scottish Government and submitted on 30/06/2021. We have reviewed the submission and the feedback from the Scottish Government and can conclude that the workplan includes a sufficiently detailed corporate plan for the different employee service streams.</p> |

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