



Inverclyde Integration Joint Board

Annual Audit Report to the Members of Inverclyde Integration Joint Board and the Controller of Audit for the year ended 31 March 2023

7 November 2023

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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 Inverclyde 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.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

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 – financial statements audit

Audit conclusions

Our work on the financial statements of the IJB is now complete. We plan to issue an unqualified audit opinion on the annual accounts of Inverclyde Integration Joint Board (“the IJB”) following reporting of our Wider Scope and Best Value findings on 14 November 2023.

We identified one significant risk in the audit of the IJB, which relate to fraud risk from management override of controls. As documented on pages 10 and 11, 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 March 2023, 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.

We have made no recommendations on our work relating to the financial statements.

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Inverclyde Integration Joint Board (“the IJB”) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2022-23 to 2026-27, inclusive.

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 Committee on 26 June 2023.

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.

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.

Audit status

Our audit is now complete and our findings are reported herein.

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

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 Committee, together with previous reports to the audit and performance committee throughout the year, discharges the requirements of ISA 260.

Audit conclusions

Audit opinion

Our work on the financial statements of the IJB is now complete. We plan to issue an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2023, 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 2022-23 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. However we identified some minor presentational adjustments See appendix 4.

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 £5.0 million for the IJB's financial statements. This equates to approximately 2.3% 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 £3.25 million. We report all misstatements greater than £250,000.

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;
- reviewed internal audit reports as issued to the Audit 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 Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

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 5 July 2023.

We recognise the significant efforts of the finance team given the ongoing pressures to deliver a set of accounts with no identified misstatements to us in accordance with the normal timeframes.

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 (page 7 of this report):

- management override of controls fraud risk.

Other focus areas (page 8 of this report):

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

Wider scope areas (to be reported on in a future version 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 require us to communicate the 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 accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual. 	<p>Our work did not identify any instances of override of control, or matters that required adjustment in the annual accounts or which require to be brought to attention.</p>
<p>Fraud risk from income revenue recognition and expenditure</p> <p>Professional standards, as interpreted by Practice Note 10 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 requisitions from Inverclyde Council and NHS Greater Glasgow and Clyde. 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 works with Inverclyde Council and NHS Greater Glasgow and Clyde in order to deliver services delegated by the Board The Board makes 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>We have rebutted the fraud risk from income revenue and expenditure recognition in the financial statements.</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
<p>Completeness and accuracy of expenditure</p> <p>The Board's integrated finance team, led by the Chief Finance Officer, prepare expenditure forecasts as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding is not correctly captured.</p>	<ul style="list-style-type: none"> Our substantive will obtain support for gross expenditure included in Inverclyde Council and NHS Greater Glasgow and Clyde's accounting records. We will obtain confirmations of expenditure from each of these bodies. 	<p>We have concluded that expenditure is complete and accurate.</p> <p>No exceptions were identified in respect of expenditure testing. Our testing of this exercise did not identify errors in expenditure.</p>
<p>Financial sustainability and reserves</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 Greater Glasgow and Clyde and Inverclyde Council, and as part of an Integration Scheme, has a risk sharing agreement with both bodies. This scheme includes the need for the Board to achieve a break-even position unless there are clear plans to create or utilise reserves. A three year strategic plan should be produced that incorporates a medium term financial plan, incorporating: activity changes due to changes in demand; inflation; efficiency savings; the Board's legal requirements, which may impact unavoidable commitments; and savings required to align to funding available, including risk assessment of the impact of these savings. Where recovery plans are needed to address any deficits, these are agreed in consultation with both parties, in terms of timescales and the scale of recovery required to return to the break-even position. We will consider the Board's financial planning, reserves strategy, and medium term financial plans, including the identification and delivery of efficiencies and savings. We will remain alert to the communications with Scottish Government in respect of the unutilised Covid 19 reserves; We will conclude on the appropriateness of these arrangements in our annual audit report, within the financial sustainability wider scope work. 	<p>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, with a refreshed Strategic Plan approved by the IJB in March 2023. These take into consideration known and expected budget pressures.</p> <p>During 2023, a financial plan for 2023/24 to 2027/28 has been developed from financial frameworks underpinning the IJB's strategic delivery plans.</p>

Management reporting in financial statements

Report	Summary observations	Audit conclusion
Management commentary	<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 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>The information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.</p>
Remuneration report	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>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.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p> <p>A small presentational adjustment was made to the remuneration report. See Appendix 4.</p>
Annual governance statement	<p>The statement for 2022/23 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 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.</p> <p>We were satisfied with the proposed disclosure over the governance arrangements.</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 body's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the body 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.

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

The 2022/23 budget of was approved by the Board in March 2022, amounting to £194.6 million including £66 million and £128.6 million relation to Council and Health funding respectively. As per the original budget, the funding was indicative at the point of budgeting. The final allocation resulted in an overall budget of £189 million. The IJB later approved budget realignment and virement, resulting in an overall budget of £196.5 million. The year end position was £199.95 million, with the variance mainly resulting from additional funding in relation to Health pay awards and year-end adjustment of set-aside budget, amounting to £1.6 million and £1.3 million respectively.

The total net expenditure for the year amounted to £204 million against the overall funding received of £199.95 million, generating a revenue deficit of £4.1 million.

The 2023/24 budget of £200.7 million was approved by the Board on 20 March 2023, representing an increase as compared to the 2022/23 budget. Inverclyde Council set their 2023/24 budget on 2 March and then confirmed a proposed funding allocation for the IJB for the year. Greater Glasgow & Clyde Health Board is still to confirm its final allocation but has given the IJB an indicative allocation on 9 March 2023.

This budget assumes that:

- There will be no ongoing Covid related costs on the basis that the Scottish Government has now removed any funding for this area.
- Main cost pressures (net of savings) relate to employee costs and supplies and services, amounting to £3.4 million and £0.9 million.

The 2023/24 budget identifies a funding gap of £1.5 million in relation to Social Care after assuming utilisation of £0.6 million from the general reserves. This gap is bridged through identification of savings amounting to £1.2 million with the balance to be funded through surplus on Health. The surplus on Health is arrived at after assuming savings amounting to £0.15 million. The budget paper notes that all of these savings / adjustments can be implemented with minimal service disruption, no loss of existing posts and no increase in charges to users.

Based on the above, financial balance is achieved in the short term.

Budget Monitoring

Finance reports are submitted to the IJB on a regular basis and highlight budget variances and projections to the year end, together with any significant variances and areas of concern. This includes reporting on revenue and capital expenditure.

Financial regulations

A copy of the IJB's financial regulations are uploaded on the website, however these were approved in March 2019 with review scheduled for June 2022. The updated financial regulations have been reviewed and approved dated June 2023 and a copy is available on the meetings section. However updated copy has not been uploaded to the designated finance section of the website. Furthermore the approval is one year after the due review and approval date. The Standing Orders and Scheme of Delegation of the Board are available for public access on the website, however they relate to 2016 and 2019 respectively.

Recommendation One

Fraud prevention mechanisms

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 partner bodies. We reviewed the arrangements in place at Inverclyde Council and NHS Greater Glasgow & Clyde and found them to be adequate.

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.

Internal controls

The IJB does not have its own financial systems and instead relies upon the financial systems of the host bodies to record all transactions, in particular Inverclyde Council which hosts the IJB's banking arrangements.

As part of our audit approach, we gained assurance in our capacity as the external auditor of Inverclyde Council, confirming that there were no significant weaknesses in the systems of internal control that would impact on the IJB.

Financial management (continued)

Internal Audit

The Chief Internal Auditor reports directly to the IJB Audit Committee with the right of access to the Chief Financial Officer, Chief Officer and Chair of the Audit Committee on any matter. The annual programme of internal audit work is based on a strategic risk assessment and is approved by the Audit Committee.

The Chief Internal Auditors prepared annual reports to the relevant Audit Committees, including an assurance statement containing a view on the adequacy and effectiveness of the systems of internal control.

A follow up process is in place which ensures that all actions arising from internal audit reviews are captured within a follow-up database and are subject to follow up and validation by the Internal Audit on a regular basis, with reporting on progress to the Audit Committee

Management team

The IJB does not directly employ any staff in its own right. All HSCP officers are employed through either the Health Board or Council.

During 2022/23 the Interim Chief Officer left the post to return to his substantive role. The new Chief Officer and is employed by Inverclyde Council and seconded to the IJB. The Chief Financial Officer of the IJB is employed by NHS.

Going Concern

The annual accounts are prepared on a going concern basis. The IJB is reliant on others for the financial resources needed to cover its operating costs, the going concern concept is met by the legal framework surrounding the Board. Further, the annual accounts demonstrate that the entity is in a net assets position.

Conclusion

The 2023-24 budget was set in March 2023 with an increase compared to the prior period, resulting from associated cost pressures.

Financial balance is achieved in the short term.

Financial regulations are current and up to date, however there has been a delay in the scheduled review and approval of the financial regulations.

IJB has an adequate internal audit system in place.

The entity's latest accounts are prepared on a going concern basis.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Medium term financial plan

A Medium Term Financial Plan (MTFP) was presented to the Board in June 2023, in an attempt to look beyond the single year budget in the previous year. The plan relates to financial planning for future years through to 2027-28.

In preparing the Medium Term Financial Plan the following approach has been adopted:

- The indicative 2023/24 budget has been used as the basis for the Medium Term Financial Plan.
- An analysis of anticipated cost and demand pressures has been undertaken to inform future years projections.
- A review of funding assumptions has been undertaken to determine the anticipated level of funding available for service delivery.
- Scenario planning and sensitivity analysis has been undertaken to identify potential favourable, adverse and probable scenarios for each assumption within the plan. Assumptions considered most prudent but realistic has been used to generate these estimates.

The plan takes into account the cost and demand pressures and identifies the following as the main factors:

- Pay inflation;
- Demographics and volume;
- Inflationary pressures; and
- Drug inflation.

The key assumptions underlying the plan are as follows:

- The IJB has an indicative budget of £200.7m for 2023/24, including the notional £35.4m set-aside budget
- Based on planning assumptions set by the two partner bodies, it is estimated that overall funding will stay broadly level over the next 4 years although significant savings may still be required to fund anticipated cost pressures
- Taking all of this into account and assuming no further action, the IJB will have a funding shortfall of circa £8.9m over the period from 2023/24 to 2027/28

The plan is limited to the period to 2027/28 and does not include any financial forecasts to cover a longer term period. The plan should also seek to provide a longer term projection of the Board's future budget position for the next ten years. This will allow longer term risks and issues to be identified. Although it is clear that the longer term the projections, the less reliable they become, they will nevertheless allow the Board to consider longer term strategic options.

Recommendation two

Savings Plans

The plan recognises the need for and indicates that a programme of future year savings is under development by officers and these will be brought to a future meeting of the IJB for consideration in order to bridge the anticipated gap of circa £8.9 million by 2027/28. A key element of this will be based on anticipated funding settlements with both partners, therefore funding assumptions, inflationary increases and demographic pressures will be reviewed each year of the plan.

Recommendation two

Reserves Strategy

A report concerning the IJB's reserves position and updated Reserves Strategy was presented to the Board dated 26 June 2023.

The purpose of this report is to provide an updated IJB Reserves Strategy for approval and provide an updated position for the IJB's Reserves and the risks attached.

As at 31st March 2023 the balance on IJB reserves at the end of this financial year is reported to be £24.3m (£22.6m Earmarked and £1.6m General Reserves).

Financial sustainability

Reserves Strategy (continued)

Earmarked Reserves are mainly for multi-year projects which, per the Reserves Strategy, are subcategorised into:

- Scottish Government Funded Ringfenced Projects.
- Existing Projects and Commitments.
- Transformation Project Funding.
- Budget Smoothing.

In terms of the level of reserves an IJB should hold, CIPFA recommends that unallocated reserves balances should be between 2 and 4% of revenue expenditure. At the end of 2022/23 the IJB reserves are reported to be £22.6m with £1.6m unallocated reserve which is 1.00% of revenue expenditure (excluding set aside). However, the IJB additionally has c£6.4m of usable, earmarked reserves to address specific cost pressures emerging. Therefore while, strictly speaking, unallocated reserves fall below the recommended level, from the perspective of overall available reserves to help ensure financial resilience, we are satisfied that the IJB has an appropriate level of usable reserves.

As part of the 2023/24 budget, further utilisation of general reserves amounting to £0.6 million is assumed in order to achieve financial balance. This will reduce the amount of general reserves.

As part of the same report the IJB has identified Amber risk factors in relation to the earmarked reserves for Scottish Government Funded Ringfenced Projects. This is mainly because in 2022/23 the Scottish Government has reclaimed a number of these reserves or has imposed restrictions during the year. The main examples can be seen as the Covid funding which has been reclaimed during the year and restrictions placed on others such as Primary Care Improvement Programs and Alcohol and Drug Prevention where the Scottish Government have restricted new funding and asked the IJB to use reserves in the first instance.

Conclusion

A Medium Term Financial Plan is in place and takes into account appropriate scenario planning.

No longer term projections/forecasting are in place beyond 2027/28 to identify risks around financial balance in the long term.

A savings plan to bridge the identified funding gap is under development.

The IJB has a Reserves Strategy in place and the reserves position is monitored.

Vision, leadership and Governance

Vision, leadership and governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

The governance framework is the system by which the Board leads, directs and controls its functions and relates to the community and other stakeholders. It includes the systems, processes, cultures and values through which the Board strives to adhere to the principles of good governance of openness, inclusivity, integrity and accountability.

The IJB has a Code of Conduct based on the Model Code of Conduct for Integration Joint Boards. The code of conduct was revised and updated during 2021/22.

Leadership Capacity

An induction pack, which gives an overview of the IJB's activities, and where to find out more detailed information to enable all members to fulfil their role, is shared with all new members.

Strategy and Risk Management

The Strategic Plan which had previously been re-prioritised to focus on Covid recovery was refreshed during 2022/23. The refreshed plan along with an Outcomes Framework was formally approved at the March 2023 IJB. The strategic plan covers the years up to 2024. A new Strategic Plan for the five years from 2024 is currently being developed.

A number of consultations were held as part of the development of the strategic plan through online surveys and focus groups to help inform the contents of the refreshed plan.

The Risk Management Strategy is uploaded on the website. The policy is dated 2016, with review having been scheduled for 2019, which is past due. The Risk Register was presented to Audit Committee for review in September 2022 and March 2023.

Recommendation three

Governance Statement

As part of our audit process we assess the governance arrangements within the council and review the Annual Governance Statement in the annual report and accounts. The Governance Statement is reviewed and approved by the Board ahead of being published as part of the annual accounts. The Governance Statement and annual accounts were presented to the Board for approval on 25 September 2023 and were duly approved.

Scrutiny, challenge and transparency

Progress / status updates on audit (external and internal) recommendations and action points are regularly reported and considered by the Audit Committee.

Audio recordings of Board meetings are available. Board minutes and related documents are available on the website for public scrutiny.

The Board maintains a website where users can find further information about the Board's performance and the financial accounts, including other associated documents relating to strategies, policies and plans.

Conclusion

A new five-year term strategic plan from 2024 is currently being developed.

The review of the risk management strategy is past due.

The Annual Governance Statement is reviewed and approved by the board ahead of being published as part of the annual accounts.

There is regular follow-up and reporting in relation to internal and external audit findings and recommendations.

There are adequate processes in place to ensure accessibility of information for the public.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

A new performance management system has been commissioned which will be utilised for all planning actions, key performance indicators and risk management. This is intended to support the culture of performance management and delivery of improved outcomes. An Outcomes Framework is in place that maps the headline actions as per the Strategic Plan to the national outcomes and provide guidance on measuring progress against these.

The annual performance reports for 2022/23 and 2021/22 have been uploaded to the IJB's website for public access. The reports are presented to the Board for consideration, and the 2022/23 report was presented and considered at the September 2023 meeting of the IJB. Progress against the strategic plan is reported to the IJB on a six-monthly basis with the latest update reported in September 2023.

As per the latest report, performance in relation to national indicators:

- Has declined since previous year in relation to 15 out of 19 indicators.
- Is lower than the Scottish average in relation to 10 out of 19 indicators.
- Ranks in the bottom seven across all Scottish HSPCs in 7 out of 19 indicators.

As per the latest report, performance in relation to ministerial group indicators:

- Has declined since previous year in relation to 10 out of 17 indicators.
- Is lower than the Scottish average in relation to 10 out of 17 indicators.
- Ranks in the bottom seven across all Scottish HSPCs in 4 out of 17 indicators.

LGBF performance is identified and reported as part of the annual performance reporting process. As per the latest report, performance:

- Has declined since previous year in relation to 10 out of 18 indicators.
- Is lower than the Scottish average in relation to 6 out of 18 indicators.
- Ranks in the bottom seven across all Scottish HSPCs in 2 out of 18 indicators.

Recommendation four

Conclusion

A new performance management system has been commissioned and performance reports are issued and accessible to public.

The IJB's scores in respect of national indicators is showing a deteriorating trend when compared to the previous period.

Climate Change

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, auditors are required to provide answers to specified questions which are intended to gather basic information on the arrangements for responding to climate change in each body.

The IJB principally relies on the Council and Health Board to identify opportunities to operate more efficiently and sustainably and comply with the climate change requirements.

Best Value

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions.

Auditors are required to consider and to be satisfied that bodies have made proper arrangements to secure Best Value. Work is required to be undertaken in a way that it is proportionate to the size and type of the body.

Auditors should consider how the body demonstrates that it is meeting its Best Value responsibilities, and report on the body's own arrangements for doing this in the Annual Audit Report.

In the case of IJBs, work undertaken on the wider-scope areas will contribute to this consideration. We have included our consideration and recommendations, in relation to each of the wider scope dimensions, throughout this report.

The Strategic Plan was refreshed through 2022/23. The refreshed Plan along with an Outcomes Framework was formally approved at the March 2023 IJB. The Strategic Plan covers years up to 2024.

Monitoring performance against strategic plans is key to demonstrating Best Value. A new performance management system has been commissioned which will be utilised for all planning actions, key performance indicators and risk management. This is intended to support the culture of performance management and delivery of improved outcomes. We noted that outcomes framework in place maps the headline actions as per the Strategic Plan to the national outcomes and provides guidance on measuring progress against the same.

The annual performance reports for 2022/23 and 2021/22 have been uploaded to the IJB's website for public access. The reports are presented to the Board for consideration, and the 2022/23 report was presented and considered at the September 2023 meeting of the IJB.

The IJB has continued to annually review and update its Best Value Statement, and to report this to the Audit Committee to ensure full oversight and governance. The 2022/23 Best Value Statement was reviewed and agreed at the IJB Audit Committee meeting on 20 March 2023. The minutes of the meeting of the Audit Committee are periodically presented at the IJB meetings.

The IJB and Audit Committee meeting minutes, including performance and Best Value related information therein, is publicly available on the IJB website.

Conclusion

The IJB has continued to annually review and update its Best Value Statement, and to report this to the Audit Committee to ensure full oversight and governance.

The IJB has effective arrangements in place in relation to securing and reporting Best Value.

We have noted recommendations in relation to the performance reporting process in the relevant section of the report.

Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
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>Page 5 summarises the opinion we expect to provide.</p> <p>Page 9 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report</p>
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	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.
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 	Covered on Pages 11-18 of this report.

Auditor independence

Assessment of our objectivity and independence as auditor of Inverclyde 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.

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

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 2023 can be analysed as follows:	2022-23 £	2021-22 £
Audit of the Inverclyde IJB financial statements	31,470	-
Total audit services	31,470	-
Non-audit services	-	-
Total	31,470	-

This is our first year auditing the IJB. There were no non-audit services provided during the year to 31 March 2023.

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

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 2023.
Adjusted audit differences	 There were no adjusted audit differences. However there were a small number of minor presentational adjustments made
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 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 have not identified any internal control weakness during our audit to date. Management retains the responsibility for maintaining an effective system of internal Control.
Actual or suspected fraud, non-compliance with laws and 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 are no expected 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 (summarised on Page 5) from the audit were discussed with management.

Appendix four

Audit differences

We did not identify any adjusted or unadjusted audit misstatements.

Presentational differences

Adj	Nature of presentational adjustment
1	Remuneration report Minor amendments to the disclosed pension and lump sum figures as at 31 March 2022, and the in-year movement in these balances during 2022/23, for the Chief Financial Officer. This has been amended by management.
2	Management Commentary: Minor wording changes as well as insertion of hyperlinks to documents referred to in the commentary.

Recommendations

We have followed up the recommendations raised in the prior year by Audit Scotland. Below is a table of the actions and implementation. We have disclosed below the recommendations that are still ongoing with the current management response.

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3			Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

Recommendations (followed up)

Total number of recommendations	Number of recommendations implemented or superseded with new recommendations	Number outstanding (repeated below):
4	2	2

#	Risk	Issue, Impact and Recommendation	Update October 2023
1	N/A	<p>Medium to Long Term Financial Plan</p> <p>The medium-term financial plan was agreed in March 2022 which covers a 3-year period.</p> <p>The IJB has not developed any longer-term plans which go beyond 2024/25.</p> <p>Risk – the IJB are not able to fully anticipate and make saving proposals for future budget deficits in the long term.</p>	<p>A new 5 year financial plan has been developed and approved.</p> <p>Recommendation implemented.</p>

Recommendations

Recommendations (followed up)

#	Risk	Issue, Impact and Recommendation	Update October 2023
2	N/A	<p>Savings Proposals</p> <p>Efficiency savings plans and proposals should continue to be developed to meet anticipated savings target.</p>	<p>These have been completed and formed part of the annual budget setting process.</p> <p>Recommendation implemented.</p>
3	N/A	<p>Integration Scheme Review</p> <p>The updated Integration Scheme should be approved and submitted to the Scottish Government as soon as practicable.</p>	<p>This is still outstanding but a consultation is being launched in November 2023, which will be complete by January 2024, with the schemes formally approved and in place by April 2024.</p> <p>Recommendation outstanding.</p>
4	N/A	<p>Implementation of Locality Planning Groups</p> <p>Locality Planning Groups should be implemented to oversee the development of Locality Action Plans.</p>	<p>Localities have been set up in the East locality and is now operational. The West locality still needs to commence.</p> <p>Recommendation in progress.</p>

Recommendations

Recommendations – current year

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	3	<p>Financial Regulations, Standing Orders and Scheme of Delegation</p> <p>A copy of the IJB's Financial Regulations are uploaded to the IJB website, however these were approved in March 2019 with review scheduled for June 2022. The updated financial regulations have been reviewed and approved dated June 2023 and a copy is available on the Meetings section. However the updated copy has not been uploaded to the designated Finance section of the website. Furthermore, the approval is one year after the expected due date for review and approval. The Standing Orders of the Board and Scheme of Delegation are available for public access on the website however they were last formally updated in 2016 and 2019 respectively. They have been informally reviewed in the intervening period with no amendments made.</p> <p>Risk</p> <p>There is a risk of obsolete and out of date policies and procedures.</p> <p>Recommendation</p> <p>We recommend timely review and update of all policy and procedures documents.</p>	<p>The updated Financial Regulations will be uploaded to the website as soon as possible. We have reviewed the standing orders and scheme of delegation informally and there have been no changes to these from our partner organisations, hence we haven't put forward updated versions. We will discuss with our partner organisations and either present updated versions to the IJB in June 2024 or include an update of no required changes as part of the Chief Officers report.</p> <p>Chief Finance Officer</p> <p>June 2024</p>
2	2	<p>Longer term financial planning</p> <p>The Medium Term Financial Plan is limited to the period to 2027/28 and does not include any financial forecasts to cover a longer term period. The plan should also seek to provide a longer term projection of the Board's future budget position for the next ten years. This will allow longer term risks and issues to be identified. Although it is clear that the longer term the projections, the less reliable they become. Additionally, there is uncertainty around the future implications of the National Care Service. However, it is good practice to consider a 10 year outlook, which allows the Board to consider longer term strategic options. Further, saving plans are yet to be developed in relation to the funding gap identified in the plan.</p> <p>Risk</p> <p>There is a risk of failure to identify financial risks over a longer term period.</p> <p>Recommendation</p> <p>We recommend that the IJB work with partners to develop longer term forecasts / plans, and saving plans to bridge the identified long-term funding gap.</p>	<p>We are working with our partners in the Council and Health board to develop savings proposals as suggested. These will also be presented to our IJB budget working group and then presented to the full IJB as part of a development session. These will be presented as part of our budget setting exercise in March 2024. These savings will cover the next 3 years initially. Further initiatives will be looked into to deal with the medium to long term view once we know the outcome of the National Care service consultation and recommendation.</p> <p>Chief Finance Officer</p> <p>June 2024</p>

Recommendations

Recommendations – current year (continued)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
3	3	<p>Risk Management Strategy</p> <p>The Risk Management Strategy is uploaded on the website. The policy is dated 2016 with scheduled review in 2019 which is past due.</p> <p>Risk</p> <p>There is risk of obsolete and out of date risk management practice.</p> <p>Recommendation</p> <p>We recommend timely review and update of the IJB’s Risk Management Strategy.</p>	<p>The IJB has recently agreed to work in partnership with Inverclyde Council on updating the Risk Strategy process. The IJB and the Council will jointly fund a new post to take this forward. We still remain comfortable with the existing risk strategy and we provide regular updates to the IJB on all our main risks. We will have an updated Risk Management Strategy for June 2024.</p> <p>Chief Finance Officer</p> <p>June 2024</p>
4	2	<p>Performance against national indicators</p> <p>Inverclyde IJB’s overall scores in respect of national performance indicators are showing a deteriorating trend as compared to the previous period.</p> <p>Risk</p> <p>While we recognise that the deterioration is representative of wider challenges nationally, there is a risk of continuing deteriorating performance impacting on the operational performance of the IJB and ultimately the quality of services provided.</p> <p>Recommendation</p> <p>We recommend that a root cause analysis be carried out to investigate, and action plans developed and monitored, in respect of those areas with deteriorating performance.</p>	<p>A root cause analysis is currently underway and we will factor this into our new 5 year strategic plan. We will also hold a development session by Jan/Feb 2024 with our IJB to analyse areas that have deteriorated in more detail.</p> <p>Chief Finance Officer</p> <p>June 2024</p>



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