

Aberdeen City Integration Joint Board

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Aberdeen City Integration Joint Board and the Controller of Audit
November 2024

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Key messages

2023/24 annual accounts

- 1** Audit opinions on the annual accounts of Aberdeen City Integration Joint Board (IJB) are unmodified.
- 2** The audited management commentary, annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the applicable guidance. In future years, action is required to improve the content of these statements in line with relevant guidance before they are submitted for audit.
- 3** The unaudited annual accounts were received later than expected. Gaps in the supporting working papers and audit trails combined with limited action on previous year recommendations delayed the conclusion of the audit. Action is required to ensure that the unaudited accounts are accompanied by a comprehensive audit trail when submitted for audit.

Financial management and sustainability

- 4** There was substantial unplanned use of reserves to meet a significant £11 million overspend on mainstream budgets in 2023/24. The outturn deficit was substantially more than forecasted due to rising costs and demand-led services.
- 5** Budget monitoring needs improvement to support increased scrutiny and accountability of financial performance.
- 6** In other areas, the IJB has appropriate internal controls in place including standards of conduct and arrangements for the prevention and detection of fraud and error.
- 7** An established approach to medium and longer-term financial planning is in place.
- 8** Managing workforce challenges is a significant risk for the board. Targets and measures should be agreed and reported to demonstrate the effectiveness and impact of the workforce plan.

Vision, leadership, governance and use of resources to improve outcomes

- 9** The board has experienced considerable changes in leadership during the year including board and committee membership and changes in senior officers. Until new relationships are established and roles filled, such changes may reduce the effectiveness of the board and its committees.
- 10** The Risk, Audit and Performance Committee should take ownership for the body's consideration and approval of the annual accounts including the annual governance statement and associated assurances.
- 11** There is an effective performance reporting framework in place but there is scope to consider targets, outcomes and impact. Overall however, governance and Best Value arrangements are acceptable.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Aberdeen City Integration Joint Board (IJB). The scope of the audit was set out in an annual audit plan which was considered by the Risk, Audit and Performance Committee in April 2024. This Annual Audit Report comprises:

- significant matters arising from an audit of the IJB's annual accounts
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - financial management
 - financial sustainability
 - vision, leadership, and governance
 - use of resources to improve outcomes
- conclusions on the IJB's arrangements for meeting its Best Value duties.

2. This report is addressed to the board of the IJB and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. The 2023/24 financial year was the second of our five-year appointment. Our appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

4. We would like to thank board members and officers, and in particular those staff involved in the preparation of the annual accounts for their cooperation and assistance this year.

Responsibilities and reporting

5. The IJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The IJB is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice and supplementary guidance, and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during normal audit work and may not be all that exist. Communicating these does not absolve management of the IJB from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. Our 2023/24 annual audit plan set out an audit fee of £33,360. This has been increased by £5,000 to £38,360 to reflect the additional audit work required due to the delays in receiving draft accounts and an incomplete audit trail. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual accounts of the IJB are unmodified.

The audited management commentary, annual governance statement and remuneration report were consistent with the financial statements and properly prepared in accordance with the applicable guidance. In future years, action is required to improve the content of these statements in line with relevant guidance before they are submitted for audit.

The unaudited annual accounts were received later than expected. Gaps in the supporting working papers and audit trails combined with limited action on previous year recommendations delayed the conclusion of the audit. Action is required to ensure that the unaudited accounts are accompanied by a comprehensive audit trail when submitted for audit.

Our audit opinions on the annual accounts are unmodified

10. The board approved the annual accounts for the IJB for the year ended 31 March 2024 on 19 November 2024. As reported in the proposed independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the Remuneration Report was prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014
- the audited Management Commentary and Annual Governance Statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Overall materiality was assessed as £8.4 million

11. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality - This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2024 we have set our materiality at 2% of gross expenditure.	£8.4 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. We have assessed performance materiality at 75% of planning materiality.	£6.3 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 3% of planning materiality.	£250,000

13. We request that all misstatements, other than those below the reporting threshold are corrected. However, the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

14. The unaudited annual accounts were received on 9 July 2024 and the working papers on 23 July 2024. These dates were beyond our agreed audit timetable of 30 June 2024. There were gaps in the working papers and associated audit trails provided for audit which required further information and clarification from officers.

15. The audit of the previous year's accounts had not been concluded until 28 March 2024. Audit fieldwork was undertaken in the October to December 2023 period but it took until March 2024 for the Chief Finance Officer to fully address the queries which had arisen from the audit.

16. Having concluded the 2022/23 accounts, the Chief Finance Officer had a better understanding of the working papers which needed to be provided to support the annual accounts. While officers attempted to provide a working paper package for the 2023/24 accounts, there continued to be gaps in the working papers and associated audit trails provided for audit. This was exacerbated by the planned departure of key finance staff. Other officers were identified to provide support during the audit and while we acknowledge and appreciate their assistance, there were delays in obtaining responses to audit queries.

17. The timetable for the audit was set out in our Annual Audit Plan which was considered by the Risk, Audit and Performance Committee in April 2024. We intended to return to pre-Covid deadlines and conclude the audit in September 2024. When planning a date to meet with the Chief Finance Officer to discuss and resolve matters arising from the audit, we were advised that he was on unplanned leave. With limited health and social care resources available to resolve the matters arising from the audit, we agreed to the Chief Officer's request to delay the conclusion of the audit until the next board meeting in November 2024.

18. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the board, including our view about the qualitative aspects of the body's accounting practices. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Completeness of expenditure</p> <p>When reviewing the IJB's cut off arrangements, approximately £5 million of expenditure was identified in the 2024/25 ledger which related to the 2023/24 financial year. While this amount is below our materiality levels, when compared with the IJB's reserves balance of £9.8 million, we regarded the amount as 'material by nature'. The IJB would face more serious financial pressures if its reserves balance at 31 March 2024 were to reduce from £9.8 million to £4.8 million.</p>	<p>The council uses a cut off threshold of £10,000 for identifying and accruing expenditure back into the previous year. Where appropriate, this arrangement would also apply to social care expenditure.</p> <p>Having reviewed the list of 2023/24 invoices paid in 2024/25, we noted that a number of suppliers had been omitted from the manual calculation of social care packages which have been provided to service users but for which an invoice has not been received. Automating the calculation of such packages, as was previously the case, is planned and should reduce the scope for error.</p> <p>We also looked at the opening accrual to determine if a similar issue had arisen at last year end. This confirmed that a lessor</p>

Issue	Resolution
	<p>but similar amount had been omitted from the previous year accrual. If the closing accrual was to be adjusted, the opening accrual would also need to be adjusted. Overall, the impact on expenditure included in the 2023/24 accounts would be an understatement of approximately £1.5 million. We do not regard this amount as material and, having discussed the matter with officers, it has been agreed that the accounts will not be adjusted for this amount.</p> <p>Recommendation 1</p> <p>(Refer Appendix 1, action plan)</p> <p>We comment further on financial management issues in Section 2, page 16.</p> <p>No other misstatements were identified from the audit of the financial statements.</p>
<p>2. Remuneration Report</p> <p>There were a number of errors in the preparation of the Remuneration Report. Guidance had not been followed in respect of the remuneration disclosures required for starters and leavers in the year.</p>	<p>The Remuneration Report in the revised accounts has been amended to reflect the correct disclosures.</p>

The unaudited management commentary continued to fall short of requirements

19. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. Management commentaries should provide information on the IJB's main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of an organisation's performance – both financial and non-financial – as well as helping stakeholders understand the financial statements.

20. Our 2022/23 annual audit report highlighted the need for improvement in the management commentary. Our recommendation on this issue was not addressed in the preparation of the 2023/24 unaudited accounts. We worked with officers during the audit to make improvements and produce an acceptable commentary for inclusion in the audited accounts. A more considered approach is required to ensure arrangements are in place for the development of a fully compliant commentary in 2024/25.

21. As reported last year, the unaudited version of the management commentary did not provide:

- a fair, balanced and understandable analysis of the IJB's performance during 2023/24 and could have done more to help stakeholders understand the financial statements e.g. financial outturn against budget, whether planned savings were achieved, progress against outcomes.
- an overview of service performance in the year or include relevant indicators to enhance the service 'story'. While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary includes financial and non-financial performance indicators. The commentary should include both positive and negative aspects.
- references to, or additional explanations of, amounts included in the financial statements. The commentary provided for audit did not explain the reasons for the scale of the deficit reported in the comprehensive income and expenditure statement, why it differed from forecasts or the action taken by management in response.

Recommendation 2

The management commentary should provide a clear and balanced narrative on the performance of the IJB during the year and be supported by financial and non-financial performance information. (Refer [Appendix 1](#), action plan)

Annual Governance Statement

22. The Annual Governance Statement is required to include an assessment of the effectiveness of the key elements of the governance framework and an opinion on the level of assurance that the governance arrangements can provide. The statement relates to the governance system as it applied during the year but significant events or developments that occur between the reporting date and the date on which the accounts are signed should also be reported.

23. Internal audit reported on five areas during the last year with risk ratings minor (one report), moderate (two reports) and major with limited assurance obtained over this area (two reports). These latter reports relate to reviews of adults with incapacity and social care financial assessments. In both cases, management acted promptly to address the concerns raised.

24. Given the limited assurance obtained in these areas, we would expect a reference to the findings and actions taken to address the identified risks in the annual governance statement. This has now been reflected in the revised annual accounts.

25. While the service responded quickly to the internal audit recommendations, there is scope for the service to better demonstrate whether systems and controls in place are operating as expected.

Recommendation 3

A framework should be put in place which requires managers to reflect on their areas of responsibility with a view to undertaking self-assessment each year and providing the Chief Officer with a certified assurance statement. In turn, the Chief Officer should consider the level of assurance required to support the Risk, Audit and Performance Committee when they consider the annual governance statement for approval. (Refer [Appendix 1](#), action plan)

Audit work responded to the risks of material misstatement identified in the annual accounts

26. We obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risk we identified in the 2023/24 Annual Audit Plan and summarises the audit procedures performed and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Evaluating assurances from the external auditors of partner bodies, i.e., Aberdeen City Council and NHS Grampian, which include:</p> <ul style="list-style-type: none"> Assessing the design and implementation of controls over journal entry processing Making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments Testing journals around the year-end and focusing on areas of risk 	<p>Appropriate assurances were obtained from the work of the external auditors of the partner bodies. Auditors did not identify any evidence of management overriding controls.</p> <p>Related party relationships have been adequately disclosed in the accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> • Evaluating significant transactions outside the normal course of business • Reviewing accounting estimates • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year • Focused testing of accounting accruals and prepayments • Assessing the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. 	

27. In addition, we identified ‘areas of audit focus’ in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. These are summarised in [Exhibit 4](#).

Exhibit 4

Areas of audit focus

Audit risk	Assurance procedure	Results and conclusions
<p>1.Recommendations for improvement</p> <p>On conclusion of the 2022/23 audit of the annual accounts, we made recommendations for improvement in the working paper package provided for audit and the management commentary included in the unaudited accounts. If the expected improvements were not delivered, we identified a risk the audit would be delayed. In addition, the Chief Finance Officer retired in July</p>	<p>Discussions with Chief Finance Officer and providing him with a working paper checklist.</p>	<p>Limited improvements were made in response to our recommendations following the audit of the 2022/23 accounts. There were delays in receiving working papers and responses to subsequent queries raised. The departure of key staff adversely affected the audit and, with limited spare capacity, there was little alternative for the Chief Officer but to delay the conclusion of the audit by two months.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2024 which we highlighted may have further implications for the audit of the annual accounts.</p>		<p>Recommendation 4 (Refer Appendix 1, action plan)</p>
<p>2. Transactions for the IJB are recorded through the partners' financial ledgers.</p> <p>If robust processes are not in place, there is a risk that expenditure and income is miscoded and IJB accounts are misstated.</p>	<p>We discussed with finance officers the arrangements in place for pulling together information required to prepare the financial statements and ensuring they are complete and correctly presented.</p> <p>We also reviewed related party transactions including reconciliation with the relevant balances in the partners' accounts, as appropriate, to ensure accuracy and completeness of reported amounts.</p>	<p>The IJB accounts were prepared from the respective partners' financial ledgers and pulled together via a consolidation spreadsheet. We agreed the IJB accounts with the respective ledgers.</p> <p>Related party relationships have been reconciled to the partners' accounts and appropriately disclosed in the accounts.</p>

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusions

There was substantial unplanned use of reserves to meet a significant £11 million overspend on mainstream budgets in 2023/24. The outturn deficit was substantially more than forecasted due to rising costs and demand led services.

Budget monitoring needs improvement to support increased scrutiny and accountability.

In other areas, the IJB has appropriate internal controls in place including standards of conduct and arrangements for the prevention and detection of fraud and error.

The 2023/24 budget included planned savings to address the funding gap

28. The IJB approved its 2023/24 budget in March 2023. It was set at £377.783 million with a funding gap of £9.423 million. Plans to address the gap were dependent on the delivery of savings from service redesign. Planned savings included the following:

- reshaping approach to commissioning services - £2.4 million
- strategic redesign and commissioning of large hospital services - £1.5 million
- efficient and added-value prescribing - £1.35 million
- vacancy management - £1.0 million
- increased income from clearing the backlog in financial assessments - £1.0 million

The IJB incurred a significant overspend in 2023/24

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

30. The IJB incurred an overspend of £17.311 million comprising deficits of £10.774 million on mainstream budgets and £6.537 million on ring-fenced budgets. The main overspending services included Older People and Physical

and Sensory Disabilities £6.379 million, Learning Disabilities £3.023 million and Primary Care Prescribing £1.784 million.

31. Commissioned care is £10.259 million overspent due mainly to increased demand and rising costs. The number of clients receiving a care package increased by 930 (18%) during the year. The nationally agreed pay uplift was 6% while the budgeted rate was 3% and therefore the IJB needed to absorb the unfunded element.

32. During the 2023/24 budget setting process, the budget for primary care prescribing was uplifted by £4.5 million (11%) to reflect the increasing costs experienced by the service. Nevertheless, primary care prescribing overspent by nearly £2 million due to higher volumes and prices than budgeted. Pressures on prescribing have been highlighted at a national level through Chief Officer and Chief Finance Officer networks.

Planned savings were largely delivered

33. The IJB achieved savings of £7.473 million or 79.3% of the total budgeted savings outlined in paragraph 28. This left a shortfall of £1.950 million which largely related to prescribing and out of area placements. Planned savings such as vacancy management was achieved and increased income was raised as a result of clearing the financial assessments backlog but these were non-recurring in nature. This means they are one-off savings that apply to one financial year and will not produce recurring savings in future years.

A substantial use of reserves was required to meet an unplanned overspend

34. IJB reserves reduced from £27.146 million at the start of the year to £9.835 million at 31 March 2024 as a result of using earmarked balances to fund an overspend of £17.311 million. This was split between the earmarked balances for integration and change £13.868 million, primary care £1.669 million and ring-fenced funds £1.774 million. The IJB acknowledges that the significant use of reserves limits its opportunities to innovate and redesign for the future.

35. The reserve balance at 31 March 2024 was £9.835 million and comprised earmarked balances for Integration and Change of £4.296 million, ring-fenced balances of £3.039 million and a risk fund of £2.5 million.

Budget monitoring needs improvement to support increased scrutiny and accountability

36. Quarterly budget monitoring reports are submitted to the IJB which show actual and budgeted amounts for the year to date and a forecast outturn for the year with explanations for significant variances. They also provide progress on the implementation of savings plans.

37. The Medium Term Financial Forecast (MTFF) showed total budgeted expenditure of £377.423 million for 2023/24. This was revised to £396.042 million at the end of Quarter 1, an increase of £18.619 million. The

budget was revised again in Quarter 2 to £412.163 million, an increase of £16.121 from Quarter 1.

38. There was no reconciliation for the movements in the annual budget from quarter to quarter. In addition, the total drawdown from reserves of £34.740 million for the first two quarters exceeded the balance of £27.146 million held in reserve at 1 April 2023. This information was unclear and potentially misleading.

39. The Quarter 4 report was presented to the board in May 2024. It reported the results of mainstream expenditure budgets which incurred an overspend of £10.774 million but was silent on the outturn position incurred on ring-fenced funds which had also overspent by £6.537 million. It was therefore unclear how the overall overspend of £17.311 million reported in the annual accounts reconciled with the outturn position reported in the Quarter 4 monitoring report.

40. During 2023/24, quarterly monitoring reports were submitted to either the board or the Risk, Audit and Performance Committee depending on the date of the meeting closest to the date the report was available. Quarter 1 financial monitoring was submitted to the committee while Quarters 2 and 4 were submitted to the board. Quarter 3's financial position was not reported to either the board or the committee. This dilutes the clarity on who has responsibility for monitoring and scrutiny of financial performance.

41. IJB health budgets are particularly challenging to manage due to regular adjustments arising from Scottish Government funding announcements and/or a dependence on data from NHS national systems which is not always received on a timely basis. A key example of this in Aberdeen City is primary care prescribing where forecast overspends significantly fluctuated during the year due to reliance on national systems. We observed that board members regularly discussed the challenges around prescribing and the actions being taken by NHS Grampian and the three IJBs in the area to contain prescribing expenditure.

42. The prescribing overspend ultimately represented 17% of the mainstream budget overspend or 10% of the total overspend. The majority of the overspend was attributed to rising costs and increasing demand for other services such as older people and learning disabilities services but there was little scrutiny of those budgets and mitigations when considering financial reports during the year.

43. The outturn position reported in Quarter 4 and the annual accounts was significantly different to the forecast position reported in Quarter 2. Given the level of overspend and the impact on reserves, there was scope for more in-depth scrutiny by board members.

44. Reasons for overspends (forecast and actual) are generally explained in financial monitoring reports but more information needs to be provided to clarify where action is being undertaken to mitigate the risks and to provide early warning data on unforeseen costs and/or demand led budgets at risk of significant overspend.

45. IJBs, nationally, are experiencing a challenging financial climate with the likelihood of tough decisions ahead. Members need regular, accurate, transparent and sufficient information to scrutinise the financial position they are accountable for. This is particularly important when services are overspending and finances are tight but it should assist members to challenge officers on mitigating actions, scrutinise performance more effectively and be better informed to consider options and make difficult decisions.

Recommendation 5

The board should review the adequacy and frequency of the financial information it receives and consider the best forum in which to monitor and scrutinise expenditure incurred, performance against budget and progress on savings. For example, the IJB could consider the overall financial position at every meeting and delegate specific budget lines to the Risk, Audit and Performance Committee for deeper-dive scrutiny and reporting back.

The IJB has appropriate internal controls in place

46. The IJB is a commissioning body and does not operate its own financial systems directly. The financial statements are produced from the financial systems of its partners.

47. The IJB does not have any assets, nor does it directly incur expenditure or employ staff. All funding and expenditure for the IJB is received/incurred by partner bodies and processed in their respective accounting records including the financial ledger and payroll.

48. Internal control over financial systems sits within the partner bodies rather than the IJB. Information from these systems is used to prepare the IJB's annual accounts. As part of our planned audit approach, we drew assurances from the work of the external auditors of NHS Grampian and Aberdeen City Council, the IJB partner bodies, on the appropriateness of the design and effectiveness of operation of systems of internal control (including those relating to IT) at the partner bodies relevant to the IJB.

49. These assurances confirmed there were no significant weaknesses in the systems of internal control for either the health board or the council that could result in a risk of material misstatement to the IJB's annual accounts.

Internal audit provided a reasonable level of assurance

50. The IJB's internal audit function is provided by the Chief Internal Auditor of Aberdeenshire Council. The Chief Internal Auditor's annual report and opinion in respect of financial year 2023/24 was presented to the Risk, Audit and Performance Committee in June 2024 when he confirmed that, in his opinion, the board had operated an adequate and effective framework for governance, risk management and control during the year.

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

51. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

52. The IJB does not maintain its own policies relating to the prevention and detection of fraud and error but takes assurance from those in place at its partner bodies. The assurances provided by the auditors of NHS Grampian and Aberdeen City Council did not highlight any non-compliance with laws and regulations or other significant matters including fraud or suspected fraud. We are not aware of any specific issues we require to bring to board members' attention.

53. The IJB has a code of conduct for its members which was revised in summer 2022 and provides an annual report to the Risk, Audit and Performance Committee covering both its own whistleblowing arrangements and those of the partner bodies.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusions

An established approach to medium and longer-term financial planning is in place.

Managing workforce challenges is a significant risk for the board. Targets and measures should be agreed and reported to demonstrate the effectiveness and impact of the workforce plan.

The IJB has an established approach to medium and longer-term financial planning including identification of potential savings initiatives to achieve financial balance

54. 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. The IJB has an established approach to medium-term financial planning covering a seven-year period which supports its strategic plan and assesses the affordability of future service delivery. This serves as an impetus for the board to identify measures at an early stage to plug gaps in achieving financial balance in future years.

55. The Medium Term Financial Framework (MTFF) and reserves strategy is updated every year. The 2023/24 plan showed a shortfall in funding of £52.024 million across the seven years covered by the plan which is to be met from efficiency savings. Potential savings have been identified to meet the shortfall of £9.609 million in 2024/25 but it remains unclear at this stage how the required savings will be generated in subsequent years.

56. The MTFF aims to provide potential solutions to be worked on during the timeframe to close the forecast funding gap each year. In order to make services more sustainable, the IJB's focus is on service redesign with a key enabler being the re-commissioning of the care at home contract and the strategic redesign and commissioning of the large hospital services estimated to generate total savings of £24.220 million (£2.586 million in 2024/25).

57. The IJB has a reserves strategy which is considered on an annual basis as part of the MTFF. A significant element (67%) of the reserves held at 31 March 2023 was earmarked for integration and change but 75% (£13.9 million) of this balance was used to fund the deficit incurred during 2023/24. The scale of the shortfall experienced in 2023/24 is not sustainable. While the reserves strategy will need to be reviewed as part of the 2025/26 MTFF, the IJB felt it prudent to

plan to reinstate the reserve used to cover the deficit over time by allowing for a £0.5 million transfer back to reserves each year.

58. Aberdeen City IJB's reserves as at 31 March 2024 was £9.834 million of which the risk fund reserve is being maintained at £2.5 million. This is aimed at providing funding to cover any adverse financial movements that occur and protect partners from having to provide additional funds. The IJB has a history of delivering a balanced budget without additional support from its partners.

59. It was agreed by the Senior Leadership Team that any residual budget savings required to balance the budget would be allocated to individual budgets and this amounts to £24.054 million (£3.423 million in 2024/25). This is the first year that savings generation has been assigned at budget holder level.

Managing workforce challenges is a significant risk for the board

60. The IJB approved its Workforce Plan for 2022–2025 in November 2022 and the first annual workforce plan update was provided to the Risk, Audit and Performance Committee in November 2023.

61. We recommended in our Annual Audit Report last year that the IJB develop specific targets and measurable performance indicators in order that the effectiveness of the plan can be assessed and the success of agreed actions monitored. There has been no further update to board members since the initial report in November 2023.

Recommendation 6

Targets and measures should now be agreed and reported to demonstrate the effectiveness of the workforce plan

62. Workforce risk has however been assessed as an area of high risk in the Strategic Risk Register due to the following factors:

- the current staffing complement profile changes on an incremental basis over time
- the proportion of over 50s employed within the partnership is increasing rapidly (e.g. one in three nurses are over 50)
- there is an exhausted workforce with higher turnover of staff (particularly over 50)
- high vacancy levels and long delays in recruitment across health and social care services
- the economic upturn in the North East post-covid has meant there is direct competition with non-clinical posts and there are national Scottish shortages in all of health and social care professions. The IJB is therefore competing with the central belt when attracting candidates.

63. The IJB acknowledges that staffing and recruitment challenges are a recurring theme and while improvements are being made, a significant amount of work requires to be done to reduce vacancies and training needs.

Audit work in response to risks relating to financial sustainability identified in the 2023/24 Annual Audit Plan

64. [Exhibit 5](#) sets out the wider scope risks relating to financial sustainability identified in the 2023/24 Annual Audit Plan. It summarises the audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5

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

Audit risk	Assurance procedure	Results and conclusions
<p>1. Financial sustainability</p> <p>The board acknowledges that while demand for services is increasing, financial resources are not keeping pace. There is a need to explore areas where savings can be made, for example, through robust financial management, service redesign and innovation.</p>	<ul style="list-style-type: none"> • Monitored the financial position throughout the year • Reviewed medium-term financial planning arrangements • Discussion with officers. 	Refer to paragraphs 54 to 59.
<p>2. Workforce challenges</p> <p>The recruitment and retention of staff is challenging across all health and social care services, particularly in the areas of trauma informed care, complex care and self-directed support. There is a shortage of clinical staff which is a significant risk for sustainable service delivery.</p>	<ul style="list-style-type: none"> • Reviewed workforce plan. 	Refer to paragraphs 60 to 63.

4. Vision, leadership, governance and use of resources

Public sector bodies must have a clear vision and strategy and set priorities for improvement. They need to make best use of their resources and work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusions

The board has experienced considerable changes in leadership during the year including board and committee membership and changes in senior officers. Until new relationships are established and roles filled, such changes may reduce the effectiveness of the board and its committees.

The Risk, Audit and Performance Committee should take ownership for the body's consideration and approval of the annual accounts including the annual governance statement and associated assurances.

There is an effective performance reporting framework in place but there is scope to consider targets, outcomes and impact. Overall however, governance and Best Value arrangements are acceptable.

The board has experienced considerable changes in leadership during the year

65. Since April 2024, the IJB has experienced a period of significant change in leadership both in terms of membership of the board and changes in senior officers. Out of eight board member positions, only three were in post all year, four members resigned from the board during the year and five were appointed.

66. In February 2024, there was a change in Chief Officer and in July 2024, the Chief Finance Officer retired after two years in the post. A new Chief Finance Officer was appointed in July 2024 but left after three months. The board is currently recruiting to fill the vacancy and, in the meantime, NHS Grampian's Director of Finance has taken the role on an interim basis.

67. Instability in leadership has the potential to disrupt strategic planning at a time when difficult and significant decisions need to be made. It can affect the culture of an organisation at a time when the workforce is under pressure. Until

new relationships are established and roles filled, such changes may reduce the effectiveness of the board and its committees.

The Risk, Audit and Performance Committee should take ownership for the body's consideration and approval of the annual accounts including the annual governance statement and associated assurances

68. The terms of reference for the Risk, Audit and Performance Committee state that it is responsible for considering and approving the annual financial statements and related matters. In practice, the committee has considered the unaudited accounts but it is the IJB which usually approves the audited accounts.

69. An audit committee is usually regarded as the body charged with governance and, as such, would have responsibility for all aspects of a body's financial statements. We would therefore expect that, in this case, the Risk, Audit and Performance Committee would consider the unaudited accounts and, in due course, approve the audited accounts.

70. Alongside the audited accounts, the committee would consider the auditor's report. In our view, the committee has more capacity to dedicate time to scrutinising the detail of the accounts and the auditor's report. This would also bring the board's practices into line with the existing terms of reference and provide a more joined-up approach to their handling of the annual accounts.

71. Included within the annual accounts document is the IJB's annual governance statement. Given the nature of the committee's business, it is appropriate that the committee has ownership of the statement, responsibility for considering the content and ensuring there are sufficient assurances from services to demonstrate the effective operation of internal controls during the year. Refer also to Recommendation 3 on page 12.

Recommendation 7

Arrangements should be put in place for the Risk, Audit and Performance Committee, as the body charged with governance, to routinely approve the board's annual accounts including the arrangements for producing the annual governance statement. This would be in line with the committee's existing terms of reference.

Governance arrangements are effective and appropriate

72. The IJB has a Board Assurance and Escalation Framework (BAEF) which is reviewed annually by the Risk, Audit and Performance Committee (RAPC). The BAEF describes the regulatory framework to support the IJB's vision, values, and principles. Fundamental to the framework are the IJB's strategic priorities and its appetite for risk. A key element of the framework is the risk management system which contributes significantly to assurance on key risks to objectives.

73. As set out in the IJB's Financial Regulations, the IJB commissions services from Aberdeen City Council and NHS Grampian. The management of services within each of these organisations continues to be governed by the existing Standing Financial Instructions, Financial Regulations, Schedule of Reserved Decisions, Operational Scheme of Delegation and any other extant financial procedures approved by their respective governance structures. Any breach or non-compliance with these regulations must, on discovery, be reported immediately to the Chief Officer or the Chief Finance Officer of the IJB.

There is an effective performance reporting framework in place but there is scope to consider targets, outcomes and impact

74. The Public Bodies (Joint Working) (Scotland) Act 2014 requires the IJB to produce an annual performance report covering areas such as performance in relation to national health and wellbeing outcomes, financial performance and best value, reporting on localities, and the inspection of services.

75. Aberdeen City's Annual Performance Report 2023/24 was presented to the IJB in September 2024. Performance against the Ministerial Steering Group for Health and Community Care indicators and the core national indicators data were not available when the report was published. The intention is to re-issue the report when the national data is available. The report also includes information on progress against the strategic priorities. This largely takes the form of narrative on key successes and achievements in the year with an indication of next steps. An appendix to the report provides a link between the narrative and the programmes included within the delivery plan and lists potential measures but there is limited reporting of measures in the report.

76. In line with the Performance Reporting Framework for the IJB Strategic Plan, the Risk, Audit and Performance Committee receives quarterly assurance on progress made against the Delivery Plan. The quarterly report includes:

- a Delivery Plan Status collated by programme which provides context to the progress being made through colour-coding and percentage completion rates
- a Delivery Plan Progress Tracker provides updates for all projects in the plan – project start and finish dates are shown, use of colour-coding and a narrative update for each project.
- a Delivery Plan Dashboard shows the key measures with supporting narrative which the progression of the Delivery Plan seeks to impact upon. For example, Delayed Discharges, Care Home Occupancy, Unmet Need, Emergency Admissions, Hospital at Home Occupancy.

77. In our 2022/23 report, we commented on the good use of colour-coding and percentages to highlight the progress being made but we recommended more use of success factors, targets and outcomes to measure the aims and impact of the work being done.

78. [Exhibit 6](#) provides a summary of progress being made against the range of programmes for each strategic aim included in the IJB's 2023/24 delivery plan. Based on 64 programmes, 45 are on track and 10 are running late. Given the

budget challenges facing IJBs, there is an expectation nationally that significant transformation and redesign of services is required to fill funding shortfalls. The latest MTFP which relates to financial year 2024/25 has helpfully made some initial steps to identify potential savings by programme but more needs to be done.

Exhibit 6

Progress against delivery plan

Strategic aim/ programme	Total	Complete	On track	At risk	Missed deadline	Closed
Caring together						
Communities	8		8			
Primary Care	3		2	1		
Redesigning adult social care	1		1			
Social care pathways	4		3			1
Keeping people safe at home						
Prevention	7		6	1		
Preventing ill health						
Flexible bed base	2		1			1
Frailty	1		1			
Review of rehabilitation	2		1	1		
Achieving healthy, fulfilling lives						
Commissioning	3	1	1			1
Digital	8		6			2
Infrastructure	2		2			
Resilience	6	1	3	2		
Workforce	5		3	2		
Strategic enablers						
Home pathways	1			1		
MGLD	6	1	2	2	1	
Strategy	5		5			
Total	64	3	45	10	1	5

Source: Aberdeen City Health and Social Care Partnership Annual Performance Report 2023-24

Recommendation 8

Consideration should be given to the use of success targets and outcomes when reporting on the impact of the delivery of the strategic plan.

The IJB has acceptable arrangements in place for securing Best Value

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

80. We have not undertaken any specific Best Value work in 2023/24. However, we considered how members received assurance that arrangements are in place to secure Best Value. Based on our review of governance and performance management arrangements, other than the matters raised in this report, we consider that the IJB has acceptable arrangements in place to secure best value.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Completeness of expenditure</p> <p>Accruals at 31 March 2024 were understated partly due to the £10,000 de minimus threshold used by the council and gaps in the social care manual accrual process.</p>	<p>The year-end arrangements for accruing expenditure back into the previous year should be reviewed to ensure no significant amounts are omitted taking IJB materiality and the level of reserves into consideration.</p>	<p>Agree - work has started to review and improve the arrangements, which will be fully implemented.</p> <p>IJB Chief Finance Officer and Aberdeen City Council Chief Officer – Finance</p> <p>By 31 March 2025</p>
<p>2. Management commentary (also reported in 2022/23)</p> <p>While guidance allows flexibility in terms of the level of performance information included in the management commentary, the initial version of the annual accounts submitted for audit did not provide sufficient detail to allow a reader to fully assess the board's overall performance.</p>	<p>The management commentary should provide a clear and balanced narrative on the performance of the IJB during the year and be supported by financial and non-financial information.</p>	<p>Agree - the performance information will be reviewed for inclusion in the accounts. It is important to highlight that the IJB already produces a comprehensive performance report in the way of its Annual Report. Therefore, a balance does need to be struck in relation to how much detail is contained with the accounts and the annual report. A clearer narrative will be provided on the balances.</p> <p>Chief Finance Officer</p> <p>March 2025</p>
<p>3. Annual Governance Statement</p> <p>Given some of the major findings identified by internal audit, there is scope to better demonstrate that systems and processes are operating as expected across services.</p>	<p>A framework should be put in place which requires managers to reflect on their areas of responsibility with a view to undertaking self-assessment each year and providing the Chief Officer with a certified assurance statement. In turn, the Chief</p>	<p>We will review and implement a self-assessment having regard to assurances provided through NHS Grampian and Aberdeen City Council arrangements.</p> <p>Chief Finance Officer</p> <p>By 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
	<p>Officer should consider the level of assurance required to support the Risk, Audit and Performance Committee when they consider the annual governance statement for approval.</p>	
<p>4.Previous year recommendations/working paper package</p> <p>Limited improvements were made in response to our recommendations following the audit of the 2022/23 accounts. There were delays in receiving 2023/24 working papers and responses to subsequent queries raised. The departure of key staff adversely affected the audit and with limited spare capacity, there was little alternative for the Chief Officer but to delay the conclusion of the audit by two months.</p>	<p>Improvement is required to the working paper package provided for audit alongside the unaudited accounts and associated support arrangements.</p>	<p>Agree and will be taken forward.</p> <p>Chief Finance Officer By May 2025</p>
<p>5. Budget monitoring</p> <p>Improvement is needed to support increased scrutiny and accountability of financial performance.</p>	<p>The board should review the adequacy and frequency of the financial information it receives and consider the best forum in which to monitor and scrutinise expenditure incurred, performance against budget and progress on savings. For example, the IJB could consider the overall financial position at every meeting and delegate specific budget lines to the Risk, Audit and Performance Committee for deeper-dive scrutiny and reporting.</p>	<p>We will work with partners to consider if there is scope for receipt of more financial information on a more frequent basis.</p> <p>We will review the reporting of financial information to the IJB and its Risk, Audit and Performance Committee and seek to adopt a more consistent approach through, e.g., reviewing meeting dates and their alignment to the production of quarterly monitoring reports.</p> <p>Chief Operating Officer By March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>6.Reporting progress against workforce plans (also reported in 2022/23)</p> <p>Workforce planning arrangements set out clear aims and key actions. The recent update provides information and narrative on progress but targets and measurable performance indicators have yet to be developed.</p>	<p>Targets and measures should be agreed and reported to demonstrate the effectiveness of the workforce plan.</p>	<p>We will consider how we can enhance current reporting on progress against the Workforce Plan with reference to targets and measures.</p> <p>People and Organisation Lead May 25</p>
<p>7.Arrangements for approving the annual accounts (also reported in 2022/23)</p> <p>Consideration of the unaudited and audited annual accounts is currently split between the board and the Risk, Audit and Performance Committee. This is not in line with the terms of reference or standard audit committee practices.</p>	<p>Arrangements should be put in place for the Risk, Audit and Performance Committee, as the body charged with governance, to routinely consider and approve the board's annual accounts including the arrangements for producing the annual governance statement. This would be in line with the committee's existing terms of reference.</p>	<p>The Integration Joint Board will, in November 2024, consider proposed dates for meetings of the Board and its committees in 2025/26. Due regard has been given to the availability of quarterly reports to allow those to be reported into Risk, Audit and Performance Committee in a timely manner.</p> <p>The Chief Officer reserves the power to report the accounts straight to the Integration Joint Board having regard to the level of risk</p>
<p>8.Strategic plan – measuring impact (also reported in 2022/23)</p> <p>It is not clear how the strategic planning actions relate to service delivery and improvement.</p>	<p>Consideration should be given to the use of success targets and outcomes when reporting on the impact of the delivery of the strategic plan.</p>	<p>We are currently working on how we can improve the visibility of the correlation of the successful delivery of our Delivery Plan project measures to the priorities within the Strategic Plan and the National Performance Indicators. We hope to be able to better demonstrate this for 2024/25. We are in the process of refreshing our Strategic Plan for 2025 onwards and this correlation is being built into the design of that.</p>

Issue/risk	Recommendation	Agreed management action/timing
		Strategy & Transformation Lead March 2025

Aberdeen CityAberdeen City Integration Joint Board

2023/24 Annual Audit Report

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