



Final report to the Members of the East Ayrshire IJB and the  
Controller of Audit on the 2017/18 audit

# Contents

---

## 01 Our final report

Introduction	3
Our audit explained	7
<b>Financial statements audit</b>	8
Significant risks	9
Our audit report	12
Your annual report	13
<b>Audit dimensions</b>	15
Overview	16
Financial sustainability	17
Financial management	21
Governance and transparency	24
Value for money	26
Sharing Best Practice	28
Specific Risks	30

---

## 02 Appendices

Purpose of our report and responsibility statement	33
Audit adjustments	34
Action plan	35
Fraud responsibilities and representations	40
Independence and fees	41
Events and publications	42

# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Integration Joint Board (IJB) for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Audit & Performance Committee in March 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Board's duty to secure best value.



# Introduction (continued)

## The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

### Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - Completeness and accuracy of income and
  - management override of controls.
- A summary of our work on the significant risks is provided within the dashboard on page 9.
- We have identified no audit adjustments from our procedures to date.
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the IJB. The good practice note issued in April 2018 states that *“the narrative in the management commentary and annual governance statement should be consistent with the accounting information in the financial statements”*. Please refer to our good practice recommendations on page 14 for areas where we feel the presentation of the Management Commentary and Governance Statement can be improved.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

### Insights

- We have performed analytical procedures on the IJB-related transactions posted through the East Ayrshire Council and NHS Ayrshire & Arran ledger systems to identify journal entries of audit interest for testing. This includes identification of journals posted on non-business days and journals posted with key words. No issues noted from testing performed to date.
- Other insights obtained through our audit work have been collated into an action plan for improvement on pages 36-38.

### Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
  - completion of journal entry testing;
  - finalisation of our internal quality control procedures;
  - receipt of signed management representation letter; and
  - our review of events since 31 March 2018.

We will provide a verbal update to the IJB on the matters above prior to signing accounts.

# Introduction (continued)

## The key messages in this report – audit dimensions

The following two pages set out the key messages of this paper in relation to the four audit dimensions:

### Financial sustainability

The IJB has achieved short term financial balance and is budgeted to achieve a balanced position for 2018/19, however, this has only been achieved through the use of non-recurring additional funding. In the medium term, the IJB is faced with an extremely challenging financial position, with a projected cumulative funding gap of £37.9m by 2022 if changes are not made.

It is positive to note that the IJB now has a Medium Term Financial Plan which sets out the demand pressures and funding assumptions over the next four years. We also note that the Strategic Commissioning for Sustainable Outcomes Programme Board has delegated authority to oversee the implementation of the financial recovery plan. It is critical that the IJB identify how services can be transformed and recurring savings can be made to ensure that the IJB can be financially sustainable over the long term.

Operationally, the IJB is performing well as a partnership in several areas. However, increased focus must be given to developing a fully integrated budget, incorporating the set aside budget, rather than viewing it as two separate budgets from the East Ayrshire Council (EAC) and NHS Ayrshire & Arran (NHS A&A). It is also important that future funding from the partner bodies is agreed in advance of the start of the financial year to ensure sufficient lead in time to implement any changes required.

The **2017/18 final outturn** position reported an under spend against a revised budget of **£183k (0.08%)**. This had been added to the net **£605k** of reserves brought forward. However, the IJB only ended the year in a net underspend position due to an additional one-off payments of **£2.2m** from the Council and **£1.269m** from the NHS to close the funding gap.

At 31 March 2018, the IJB held **£788k** of **reserves**. There is no guidance as to the minimum levels of reserves that should be held, but they are in line with the Strategic Commissioning Plan.

**£471k** of this balance has been earmarked for use on specific projects in the future, mainly for client equipment and adaption. The remaining **£317k** is uncommitted and provides a contingency fund to cushion the impact of unexpected events or emergencies.

The **2018/19 budget** is projecting a balanced position, and includes cash releasing savings of **£5.017m**.

The IJB recognise that there is a significant financial risk of achieving a balanced position at a time of increasing demand for services. In addition, the lack of a confirmed funding position from NHS Ayrshire and Arran at the start of the financial year increases this risk.

### Financial Management

While the IJB reported an overall overspend against budget for 2017/18, before additional one-off funding from the Council and NHS, this was regularly reported to the IJB within the quarterly management accounts. We are therefore satisfied that the IJB has a sound budgetary control system in place.

The IJB relies on the financial systems of both the Council and NHS and no material weaknesses have been identified from our work. We have noted, however, that there is a disparity in the quality and level of detail reported to the IJB for services commissioned from the Council and NHS, with information reported by the Council being of notably higher quality. It is important that clear and consistent information is provided to the Board for the partnership as a whole to allow the Board to perform its governance role effectively.

# Introduction (continued)

## The key messages in this report – audit dimensions (continued)

### Governance and transparency

We have reviewed the governance arrangements, the level of scrutiny, challenge and transparency of decision-making and the timeliness of financial and performance reporting. The current governance and reporting arrangements for the Lead Partnership arrangements are not as clear as for those areas under the direct control of the IJB. We have therefore recommended that these be reviewed to ensure that complete and consistent information is provided to the IJB to allow it to fulfil its governance responsibilities effectively.

We have no concerns around the arrangements with internal audit. We have reviewed the reports issued by internal audit and considered the impact of these on our audit approach.

Having reviewed the processes in place at the IJB, and not identifying any issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.

### Value for Money

The IJB has a performance management framework in place, with performance regularly considered by management, and the Board. Reporting is clearly linked to strategic priorities, however, improvements could be made to how the IJB shows that spending makes a difference in these areas.

Good partnership working has been highlighted in the Accounts Commission's Best Value Assurance Report (BVAR) report for East Ayrshire Council. The IJB should examine how its approach to reducing demand for services, for example the development of its 'front door service', could be extended to other areas of its work. We understand that this work is at an early stage and is being taken forward in 2018/19 as part of the transformation work through the Strategic Commissioning for Sustainable Outcomes Programme Board.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have plans to address areas where progress has not been satisfactory.

---

**Pat Kenny**  
**Audit Director**

# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

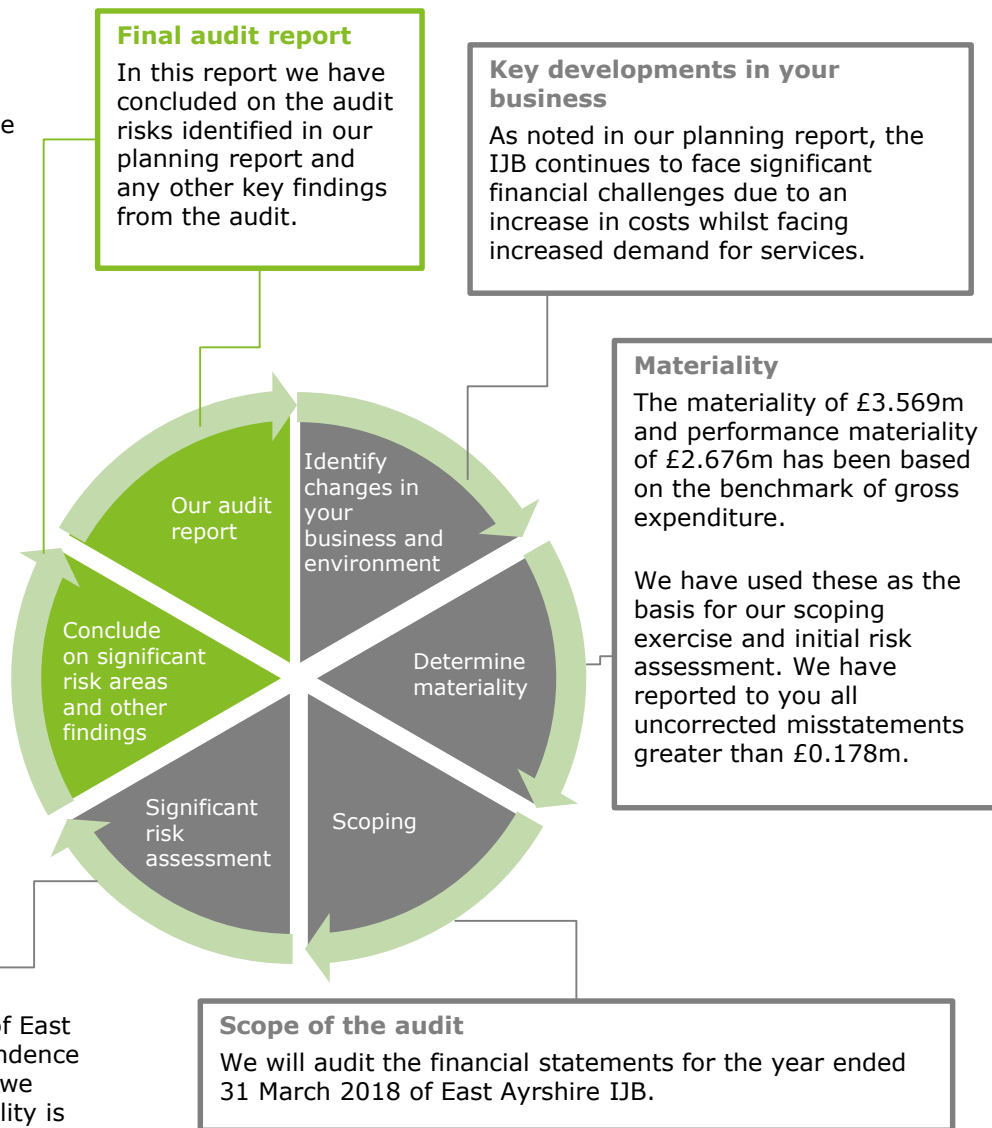
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

## Significant risks

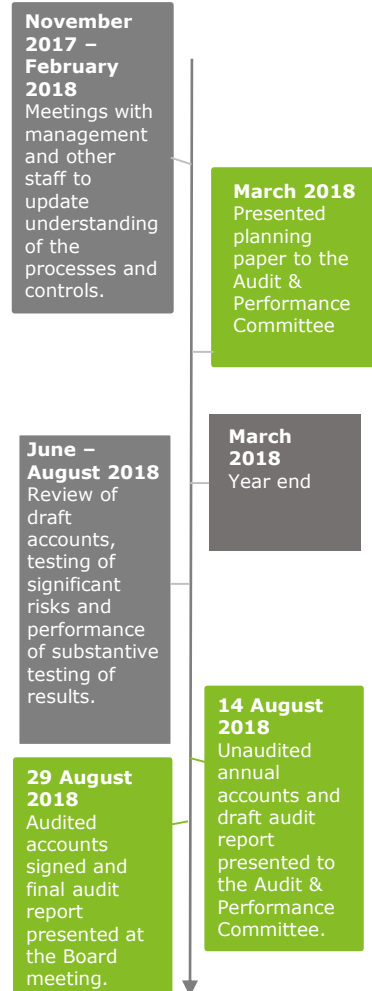
Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

## Quality and Independence

We confirm we are independent of East Ayrshire IJB. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



# Timeline 2017/18











# Financial statements audit





# Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness and accuracy of income			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Risk 1 – Completeness and accuracy of income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

The main components of income for the IJB are contributions from its funding partners, namely East Ayrshire Council and NHS Ayrshire and Arran. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Council and the Health Board.



### Key judgements and our challenge of them

The year end underspend position of the IJB of £183k was due to the additional funding received to close the gap. Therefore, there is a reliance on the funding from East Ayrshire Council and NHS Ayrshire and Arran in order to record a favourable position.

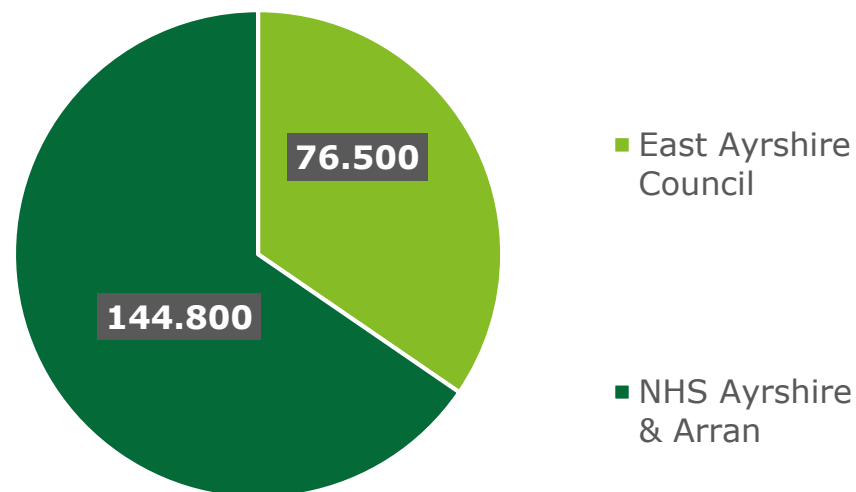


### Deloitte response

We have performed the following:

- tested the income to ensure that the correct contributions had been input and received in accordance with that agreed as part of budget process and that any additions/reductions have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2018 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2017/18 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.

2017/18 Funding (£m)



### Deloitte view

No issues have been noted regarding the recognition of income in accordance with requirements of the Local Authority Code of Audit Practice.

# Significant risks (continued)

## Risk 2 - Management override of controls



### **Risk identified**

In accordance with ISA 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of income. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.

### **Deloitte view**

We have not identified any significant bias in the key judgements made by management.

The control environment is appropriate for the size and complexity of the Board.

### **Deloitte response**

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the IJB's results throughout the year were projecting to stay within budget and this was closely monitored with confidence that the IJB would be able to meet its overall financial targets.
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### **Significant transactions**

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### **Journals**

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We performed design and implementation testing of the controls in place for journal approval. We have performed analytical procedures on IJB-related transactions posted through the Council and Health Board ledger systems to identify journal entries of audit interest for testing. No issues noted from testing performed to date – we will provide an update on our work performed prior to the accounts being signed.

### **Accounting estimates**

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

# Our audit report

## Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



### **Our opinion on the financial statements**

Our opinion on the financial statements is unmodified.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 13.

# Your annual report

We welcome this opportunity to set out for the IJB our observations on the annual accounts. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of tables. The Council also focusses on the strategic planning context.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance and have included recommendations for clear presentation in the good practice guide in the next slide.</p> <p>We have also read the Management Commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We suggest that data be presented in graphical/tabular form where possible to allow the reader to understand the movements and scale of information more clearly. Also, we have identified areas where the narrative contains certain jargon, in the statement of responsibilities for example, which the reader may find hard to understand. Please refer to the good practice note assessment on page 14 for further detail.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefit and pay bands and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the IJB's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the regulations. No exceptions noted.

# Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. A Good Practice note covering IJB's was published in April 2018 from a review of the 2016/17 annual accounts of IJBs and all IJBs were encouraged to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts,

We have provided below some extracts which should be considered by the Board in drafting future annual reports.

## Management commentary

The following areas for improvement were identified when reviewing the Board's annual report:

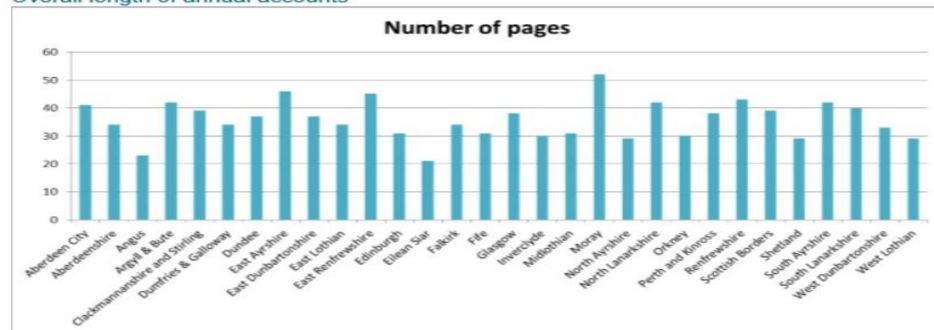
- The annual report should be reviewed in its entirety to identify areas where tabular, graphical or pictorial information (supported by narrative) may improve the accessibility of the document;
- The Board should consider if the use of case studies would enhance the general public's understanding of the work carried out by the Board.
- The outcome indicators on Page 13 of the report refer to the 2015/16 figures yet the 2016/17 LGBF data is available. A prior year column would also help to show improvement or decline.
- Non material disclosures such as the dates of inaugural meetings are not required and can be replaced using the recommendations above.
- Critical judgements and major sources of estimation uncertainty should be explained in the commentary (rather than just disclosed in the notes). EA IJB was highlighted as best practice in relation to clarity of explanation in the note but could enhance by including reference in management commentary.

## Governance statement

The following areas for improvement were identified when reviewing the Board's annual report:

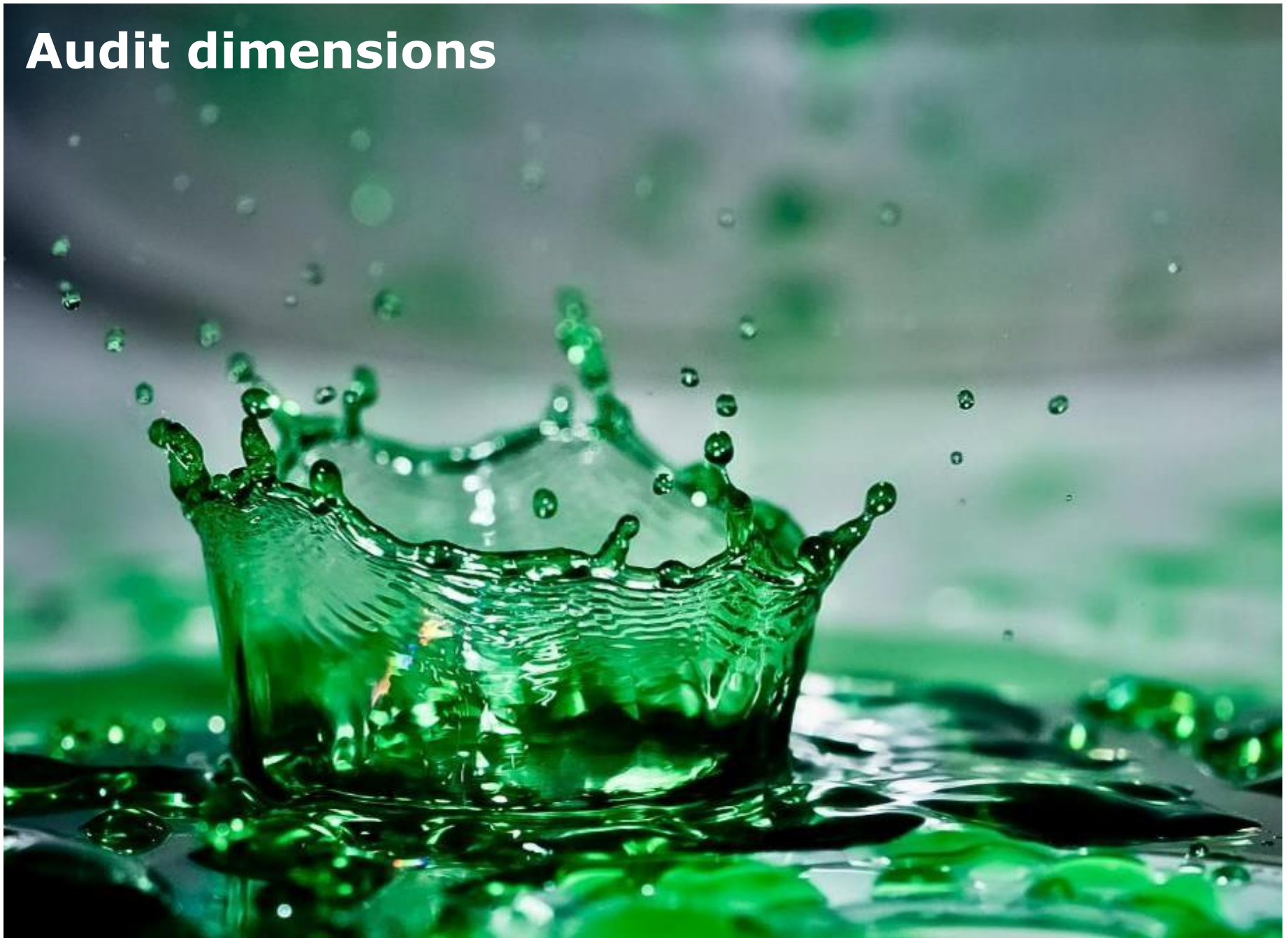
- An action plan should be included which outlines key issues arising in the year, what is to be done, by whom, and timescale for completion;
- The annual governance statement should follow up on any issues from previous years;
- Significant governance issues should be given sufficient weight in the governance statement, with their impact explained and any mitigating actions outlined.

Overall length of annual accounts



From the analysis of the length of all IJB annual accounts for 2016/17, East Ayrshire's annual accounts are at the higher end of the scale. However, as noted above, there is scope to include additional information to reflect best practice, which could replace the non-material disclosures currently included.

# Audit dimensions

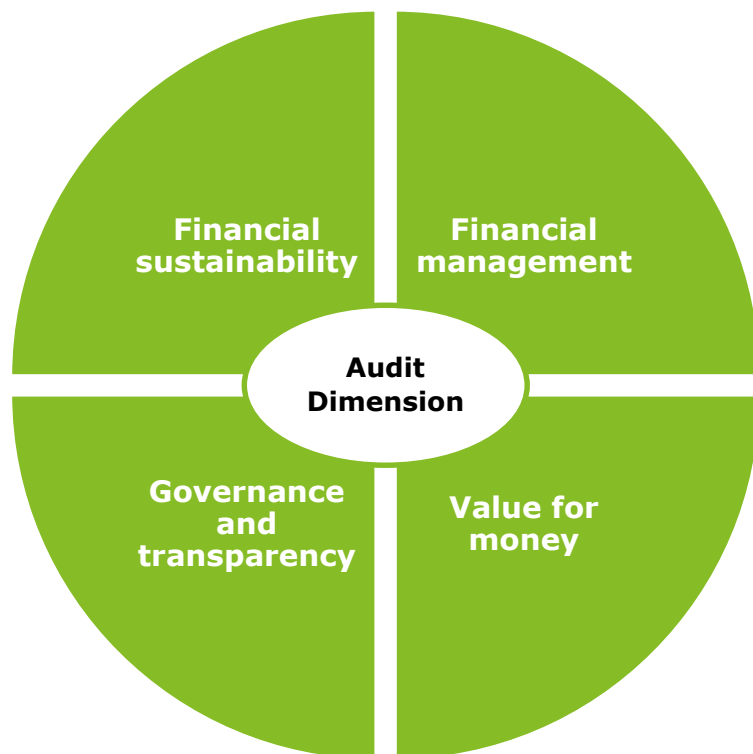




# Audit dimensions

## Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. Our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on best value and specific risks as summarised below.



### **Best Value (BV)**

It is the duty of the IJB to secure BV as prescribed in the Local Government (Scotland) Act 1973.

We have considered the Board's duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

### **Specific risks (SR)**

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

**SR 1** – EU Withdrawal

**SR 2** – New Financial Powers

**SR 3** – Ending public sector pay cap

**SR 4** – Cyber security risk

**SR 5** – Openness and transparency

# Audit dimensions (continued)

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

### Deloitte response



Within our audit plan we noted that the Medium Term Financial Plan (MTFP) identified a funding gap for 2017 to 2022 of £37.881m. Whilst some progress had been made in terms of identifying savings within the MTFP, further progress was required in order to achieve sustainable spending in future periods. We have therefore reviewed progress made by the IJB over the last year within its medium and long term financial plans.

### Deloitte view

The IJB has achieved short term financial balance and is budgeted to achieve a balanced position for 2018/19, however, this has only been achieved through the use of non-recurring additional funding. In the medium term, the IJB is faced with an extremely challenging financial position, with a projected funding gap of £37.811m by 2022 if changes are not made.

It is positive to note that the IJB now has a Medium Term Financial Plan which sets out the annual demand pressures and funding assumptions over the next four years. We also note that the Strategic Commissioning for Sustainable Outcomes Programme Board has delegated authority to oversee the implementation of the financial recovery plan. It is critical that the IJB identify how services can be transformed and recurring savings can be made to ensure that the IJB can be financially sustainable over the long term.

Operationally, the IJB are performing well as a partnership in several areas. However, increased focus must be given to developing an integrated budget, incorporating the set aside budget, rather than viewing it as two separate budgets from the EAC and NHSA&A. It is also important that future funding from the partner bodies is agreed in advance of the start of the financial year to ensure sufficient lead in time to implement any changes required.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Short term financial position

For **2017/18**, the IJB approved an initial balanced budget of £223.693m (2016/17: £216.818k). During the year, changes were made to the budget including an adjustment on the initial baseline budget delegated by NHS Ayrshire and Arran relating to non-recurring adjustments carried forward from 2016/17, and additional funding allocations. The final position of the IJB was a marginal underspend of £501k relating to services commissioned from the Council.

The Integration Scheme sets out that overspends require to be carried forward and repaid in future years. East Ayrshire Council has agreed to provide an additional £2.2m on a non-recurring basis in relation to “children’s out-with placements” to ensure financial balance for 2017/18. As part of the 2018/19 budget, the Council approved the proposal that repayment of the £2.2m should be negotiated and for planning purposes, have assumed £250k will be repaid in 2018/19. This will result in a reduced contribution to the IJB in future years.

The Integration Scheme also sets out that whilst Primary Care prescribing budgets are delegated to the IJB, prescribing is managed by NHS Ayrshire and Arran. The NHS has allocated an additional sum of £1.269m to the IJB to bring the Primary Care prescribing budget into balance for 2017/18. This was offset by a reduction in budget of £1.538m in respect of the lead prescribing budget that is not GP practice specific, including dental prescribing. This budget is wholly delegated to East Ayrshire IJB as part of Primary Care Lead Partnership arrangements and the underspend of £1.538m has been reclaimed by NHS A&A to partially offset the additional delegated prescribing funding across the three Ayrshire Partnerships under the terms of the Integration Scheme.

An indicative balanced budget for **2018/19** of £228.209m was reported to the IJB in April 2018. The balanced budget includes an assumption that the IJB will achieve cash releasing efficiency savings including demand management of £5.017m.

NHS Ayrshire and Arran confirmed its delegated budget in June 2018 and a final IJB budget for 2018/19 is in the process of being drafted ahead of the next IJB meeting.

	2017/18 budget (£m)	2017/18 revised budget (£m)	2017/18 actual (£m)	2018/19 draft budget (£m)
Council managed budget	84.351	97.189	96.688	87.533
NHS managed budget	139.342	130.803	130.803	140.576
<b>IJB Total</b>	<b>223.693</b>	<b>227.992</b>	<b>227.491</b>	<b>228.109</b>

At present, the IJB budget is still monitored against “EAC” and “NHS A&A” managed budgets, rather than a genuine pooled budget for the IJB as a whole. In addition, the set aside budget is not fully integrated into the IJB budget process. In 2017/18, the East Ayrshire share of the set aside resource was £21.890m, however, due to recurring budget pressures as a consequence of increased activity within acute hospital services, no element of the set aside resource has been released to facilitate the movement in the balance of care towards community based services. As is the case across Scotland, the IJB should continue to work to resolve funding issues around shifting the balance of care between hospitals and communities.

The IJB recognise that this is a significant financial risk of achieving a balanced position at a time of increasing demand for services. In addition, the lack of a confirmed funding position from NHS Ayrshire and Arran at the start of the financial year increases this risk. It is critical that the IJB has confirmed funding in advance of the start of the year and has savings plans agreed early to ensure that it has sufficient lead in time to implement any changes required.

# Audit dimensions (continued)

## Financial sustainability (continued)

### Reserves

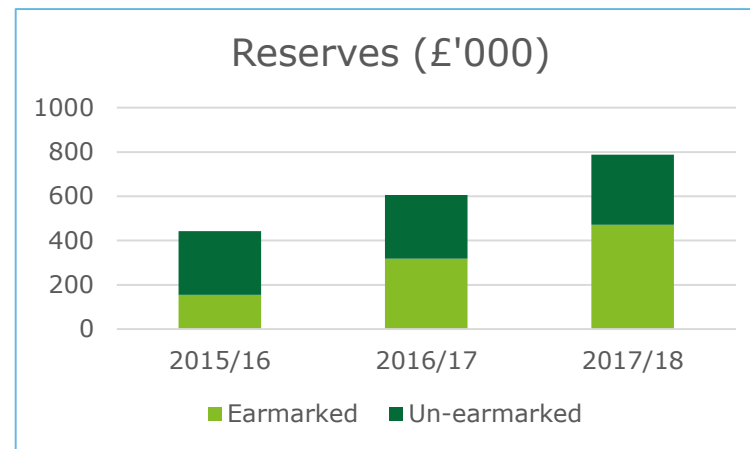
Due to the unique arrangements for IJBs, East Ayrshire only has nominal reserves, which are attributed to underspends arising in the year. In accordance with the reserves policy, these are held for two main purposes:

- **Earmarked** – to earmark, or build up, funds which are to be used for specific purposes in the future, such as known or predicted future expenditure needs. This supports strategic financial management
- **Un-earmarked** – to provide a contingency fund to cushion the impact of unexpected events or emergencies. This is regarded as a key part of the IJB's risk management framework.

The movement in earmarked and un-earmarked reserves over the last three years is illustrated on the right. This shows that, in contrast to numerous other IJBs, East Ayrshire IJB has maintained a positive financial performance year after year but as reported on page 18, this was only achieved through the use of non-recurring additional funding.

Recognising the financial challenges facing health and social care services and the imperative to initial radical change, a sum of £1m has also been earmarked by the Council to be drawn down by the IJB to facilitate change in Council delegated budgets and reduce recurring costs.

Prevention and early intervention have been the key to IJB approval for use of the Integrated Care Fund (ICF) . From 2018/19, an officer led ICF Programme Board has been established to review all existing ICF expenditure and to consider the effectiveness of each currently funded project in terms of delivery of outcomes.



# Audit dimensions (continued)

## Financial sustainability (continued)

### Medium to long term financial sustainability

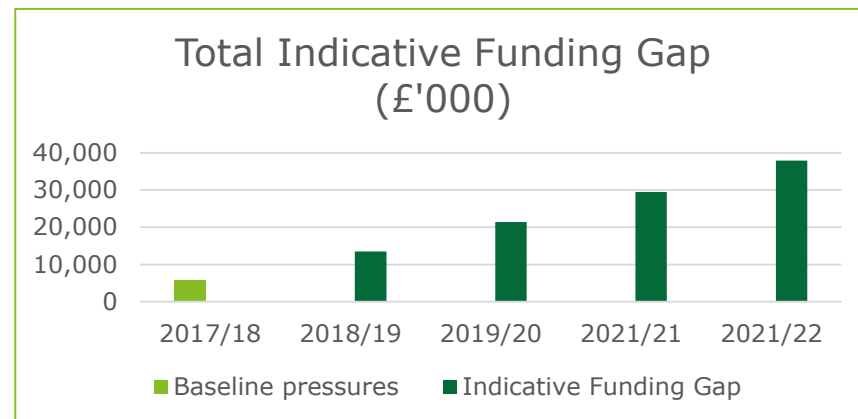
A programme of transformational change is being taken forward through the Strategic Commissioning for Sustainable Outcomes Programme Board and work is expected to continue over the course of 2018/19 to progress this transformational change programme. This Board has delegated responsibility to oversee the implementation of a financial recovery plan as part of a budget transformation strategy on behalf of the IJB Audit & Performance Committee to ensure that the IJB is best prepared to meet its Strategic Planning priorities within delegated resources. Regular updates will be provided to the IJB Audit & Performance Committee and the Board itself.

In our 2016/17 annual report, we recommended that the Board prepare a medium to long term financial plan, setting out the demand drivers and their impact on the future costs to identify the relevant mitigating actions.

A **Medium Term Financial Plan 2017/18-2021/22** was approved by the Board in November 2017. This is based on the following approach:

- Using 2017/18 as baseline
- High level analysis of cost and demand pressures to inform projection for the next 4 years
- Review of funding assumptions (assuming that delegated funding will be at best flat cash at the 2017/18 baseline allocation)
- Active engagement with partner bodies to ensure strategic plans are prepared on the basis of the most robust data available. This has considered the impact of uncertainty around demographic change, impact of welfare reform and wider political environment.

This has estimated that by 2021/22, the indicative funding gap will be £37.9m. This is extremely challenging and it is critical that the IJB consider how services are going to look in the future.



### Best Practice examples

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on six key requirements, which is discussed further on page 28-29. The overarching aspect throughout a transformation programme is making use of strong leadership in order to drive the necessary transformational change.

We have also provided some real life examples of work done in other health and local government bodies to demonstrate how some of these six key requirements can be applied in practice, as discussed on page 28-29.

# Audit dimensions (continued)

## Financial management

### Audit dimension

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

### Areas considered

- Budgetary control system.
- Systems of internal control.
- Financial capacity and skills.
- Arrangements for the prevention and detection of fraud.

### Deloitte response

We have reviewed the budget and monitoring reporting to the Board during the year to assess whether financial management and budget setting is effective.

The final outturn for 2017-18 was an in-year underspend of £501k, compared to the budget. This has been carried forward within reserves and earmarked against future expenditure, mainly for client equipment and adaptations.

As discussed further on page 18, this was achieved following additional funding of £2.2m from EAC and £1.269m from NHS A&A.

	EAC £'000	NHS A&A £'000	Total £'000
Budgets delegated to the parties from the IJB	97,189	130,803	227,922
Contribution from parties to the IJB (against delegated budgets)	(96,688)	(130,803)	(227,491)
Surplus/(Deficit)	501	0	501

### Deloitte view

While the IJB reported an overall overspend against budget for 2017/18, before additional one off funding from the Council and NHS, this was regularly reported to the Board throughout the year in the management accounts produced quarterly. We are therefore satisfied that the IJB has a sound budgetary control system in place.

The IJB relies on the financial systems of both the Council and NHS and no material weaknesses have been identified from our work. We have noted, however, that there is a disparity in the quality and level of detail provided for services commissioned from the Council and NHS, with information reported by the Council being of notably higher quality. It is important that clear and consistent information is provided to the Board for the IJB as a whole to allow the Board to perform its governance role effectively.

# Audit dimensions (continued)

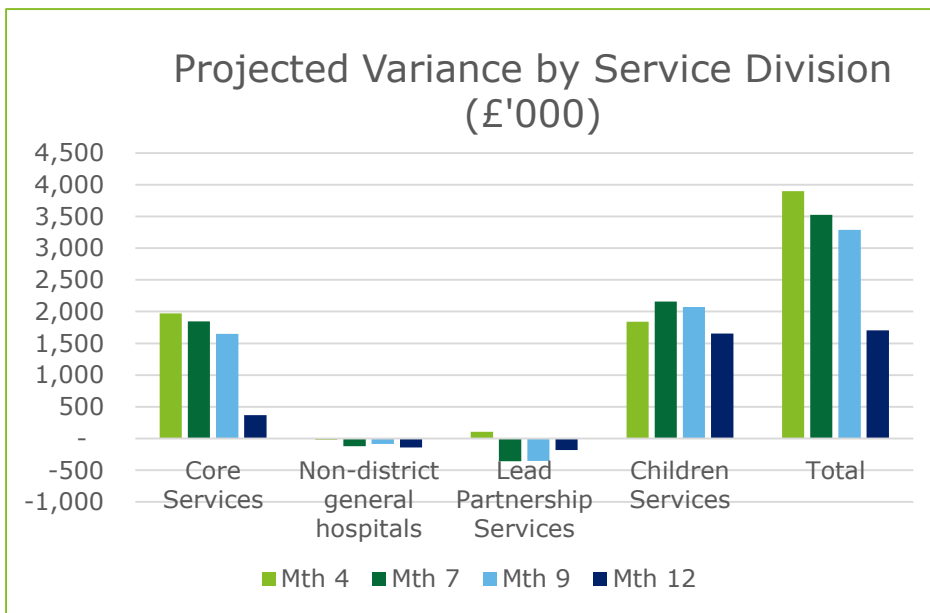
## Financial management (continued)

### Budgetary control systems

The IJB has sound financial planning and management arrangements in place. Senior management and board members regularly review progress. The Board reviews financial performance each quarter.

The finance team is led by the Chief Finance Officer who also has the role of Head of Finance, ICT and Transformation within East Ayrshire Council. He is experienced in local government finance roles for a number of years and has sufficient status to be able to deliver good financial management. His team also provides finance and accounting support to the IJB. We have not identified any issues with the financial skills, capacity and capability of the finance team. This is an area that the IJB should monitor closely in view of the transformation programme and the key role that finance play.

From discussion with a sample of Board members, we note that concerns have been raised around the disparity between the financial information provided to them for Council commissioned services and NHS commissioned services. In particular, we have found that information provided to the Board by the Council has been of notably higher quality than that provided by the NHS. It is important that clear and consistent information is provided to the Board for the IJB as a whole to allow the Board to perform its governance role effectively.





# Audit dimensions (continued)

## Financial management (continued)

### Financial performance

Variances were reported to the Board throughout the year, with a final report being presented on 13 June 2018. The overall variance is a combination of under and overspends on expenditure. The final position reported a total overspend of £1.7m, however, this was offset by additional funding of £2.2m, to arrive at the final underspend position. The expenditure variances can be analysed further as follows:

**Core Services** – Older People’s Services overspent by £612k as a result of increased demand for externally commissioned care at homes services and additional Community Alarm Service staffing costs to cover sickness and maternity leave. Community Nursing overspent by £490k, largely due to savings being allocated to the budget but no final agreement on the source of these savings. These were offset by an underspend of £520k in Physical Disabilities from vacant posts and less than anticipated care packages; and an underspend in Service Strategy due to staff turnover.

**Children’s Services** – Secure Accommodation/ Out-with Placements overspent by £2.191m. This largely relates to additional out-with authority children’s placement costs of £2.205m, for which the Council has provided additional funding in 2017/18 and is as a result of increased demand with placements approved by the multi-disciplinary Out-with Placements Screening Group. This was offset by an underspend of £718k in Children and Families/ Women’s Services as a result of staff turnover.

### Systems of internal financial control

We have evaluated the IJB’s key financial systems and internal control to determine whether they are adequate to prevent misstatements in the annual accounts. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

As auditors of both the Council and NHS Board, we have also obtained assurance from our work undertaken as part of these audits regarding the systems and internal controls used to produce the transactions and balances recorded in the IJBs financial statements.

No material weaknesses have been identified from our audit work performed.

### *Fraud and irregularity*

We have reviewed the IJBs arrangements for the prevention and detection of fraud and irregularities. Overall we found the arrangements, which are closely linked to the arrangements in place at each partner bodies, to be operating effectively.

# Audit dimensions (continued)

## Governance and transparency

### Audit dimension

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

### Areas considered



- Governance arrangements.
- Audit & Performance Committee
- Scrutiny, challenge and transparency on decision making and financial and performance reports.
- Quality and timeliness of financial and performance reporting
- Accountable officers' duty to secure Best Value

### Deloitte response



We have reviewed the financial and performance reporting to the Board during the year, as well as minutes of the IJB and Audit & Performance Committee meetings to assess the effectiveness of the governance arrangements. Our attendance at these meetings also inform our work in this area.

We have also followed up on our 2016/17 recommendation where we suggested that the timeliness of the reporting process should be reviewed to ensure that the Board is receiving timely information.

### Deloitte view

We have reviewed the governance arrangements, the level of scrutiny, challenge and transparency of decision making and the quality and timeliness of financial and performance reporting. The current governance and reporting arrangements for the Lead Partnership arrangements is not as clear as for those areas under the direct control of the IJB. We have therefore recommended that these be reviewed to ensure that complete and consistent information is provided to the Board to allow it to fulfil its governance responsibilities effectively.

We have also recommended that increased training is provided to IJB members to ensure they fully understand their roles and responsibilities and they are provided with sufficient support in areas where they don't have the required level of knowledge.

We have no concerns around the arrangements with internal audit. We have reviewed the reports issues by internal audit and considered the impact of these on our audit approach.

Having reviewed the processes in place at the IJB, and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.

# Audit dimensions (continued)

## Governance and transparency (continued)

### Leadership and vision

**Vision: Working together with all of our communities to improve and sustain wellbeing, care and to promote quality**

Through the Strategic Plan Annual Review process, the IJB has been able to recognise the increasingly challenging operational context and has developed the Strategic Plan during 2017/18 to ensure a stronger focus on strategic commissioning for sustainable outcomes within a constrained resource envelope and further strengthen partnership working in Localities to deliver on priorities.

Decision making is transparent and subject to both scrutiny and challenge. In our 2016/17 annual report, we raised a recommendation that the timeliness of reporting should be reviewed to ensure the Board is receiving up to date information. From a review of the 2017/18 reporting, we noted some improvements, but there is still scope for reports to be more timely. We have seen a move in other bodies to reporting on a more risk based approach, with higher risk areas being reported more regularly and lower risk areas less frequent. This can help with the management workload and allow Board members to receive more up to date reports on areas more critical for decision making and action.

The voting membership for the Board comprises four elected members from the EAC and four non-executive directors from the NHSS. As a result of the local government elections in May 2017, there have been some changes to the IJB membership in the year. We consider there to be sufficient diversity to provide effective balance and scrutiny in leadership. However, there is concern that members who have no previous healthcare experience may find the reports difficult to understand and we recommended that appropriate training be provided for members.

From our discussion with a sample of Board members, concern was expressed about the reporting arrangements for those areas that were being led by one of the other Ayrshire IJBs or NHS Ayrshire and Arran as part of the Leadership arrangement. We noted that the level of detail provided to the Board is not equivalent to the areas under their direct control. We therefore recommend that the reporting arrangements are reviewed to ensure that complete and consistent information is provided to Board members to allow them to fulfil their governance responsibilities effectively.

### Internal Audit

East Ayrshire Council's Chief Internal Auditor provides the Internal Audit function for East Ayrshire IJB. Internal Audit concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the framework of governance, risk management and control in the year to 31 March 2018. The objectives of internal control have been substantially met.

We have performed a review of the Internal Audit Annual Report 2017/18 in order to inform our work. However, in line with Deloitte's established arrangements, we have not placed any specific reliance on the work performed by internal audit.

On the basis of the audit work undertaken during the year, the Chief Internal Auditor is able to conclude that reasonable assurance can be placed upon the IJB's overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in the year to 31 March 2018.

# Audit dimensions (continued)

## Value for money

### Audit dimension

Value for money is concerned with using resources effectively and continually improving services.



### Areas considered

- Value for money in the use of resources.
- Link between money spent and outputs and the outcomes delivered.
- Improvement of outcomes.
- Focus on and pace of improvement.

### Deloitte response



From our 2016/17 audit work we concluded that the performance management framework put in place by the IJB was integral to delivery of quality and effective management, governance and accountability.

During 2017/18 we have reviewed how the IJB is addressing areas where targets are not being met, and also how the implementation of strategic change is impacting on how the IJB's performance is measured and reported.

### Deloitte view

The IJB had a performance management framework in place, with performance regularly considered by management, and the Board. Reporting is clearly linked to strategic priorities, however, improvements could be made to how the IJB shows that spending makes a difference in these areas.

Good partnership working has been highlighted in the Accounts Commission's BVAR report for East Ayrshire Council. The IJB should examine how its approach to reducing demand for services, for example the development of its 'front door service' could be extended to other areas of its work. We understand that this work is at an early stage and is being taken forward in 2018/19 as part of the transformation work being taken forward through the Strategic Commissioning for Sustainable Outcomes Programme Board

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

# Audit dimensions (continued)

## Value for money (continued)

### Performance Management

The IJB has embedded a performance management culture throughout the Partnership. It has created a wider range of performance information to manage services and target improvements for the people of East Ayrshire. This is supported by its performance management systems which analyse data, track progress and identify actions.

Regular performance information is provided to the Audit & Performance Committee, IJB members, operational managers and is publicly reported. Benchmarking is used to compare performance with other organisations to support change and improvement.

Reporting is clearly linked to strategic priorities, however, improvements could be made to how the IJB shows that spending makes a difference in these areas.

The Annual Performance Report will be published in September 2018. The following key areas of performance have been highlighted in the Annual Report and Accounts:

- The number of people who remain in hospital when assessed as fit to be more appropriately supported in another setting (delayed discharge) for over 2 weeks has been maintained at zero throughout 2017/18.
- There has been a significant reduction in the total number of bed days occupied as a result of 'delayed discharge' compared to 2016/17.
- Overall 'delayed discharge' has improved by 19.8% in 2017/18, and by 40.1% since 2014/15 (pre-integration). The 'front door service', as highlighted in the Accounts Commission BVAR report is showing a positive impact on these outcomes.

As recommended in the BVAR report, the Council (and the IJB) should examine how its approach to reducing demand for services, for example the development of its 'front door service' could be extended to other areas of its work.

The Accounts Commission published its **Best Value Assurance Report (BVAR)** on East Ayrshire Council in May 2018, which includes specific reference to the IJB. The key messages relevant to the IJB were:

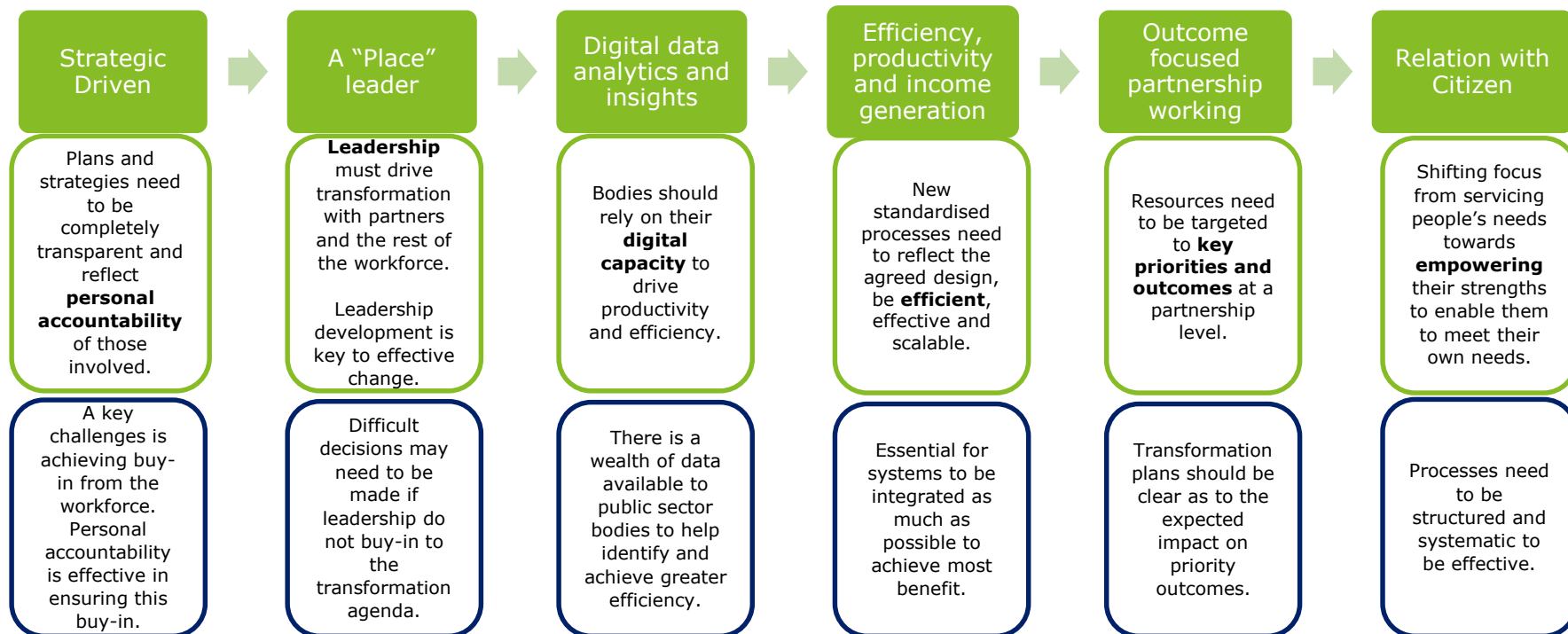
- Community Planning partners have a long track record of working well together. There are good examples of partnership working in care. The Council and the NHS have a well established partnership, strengthened by the IJB. As is the case across Scotland, the Council, the IJB and the NHS are working to resolve funding around shifting the balance of care between hospitals and communities.
- East Ayrshire Health and Social Care Partnership won a silver award for transformation in health and social care.
- Examples of good partnership working includes the new care at home service ('front-door' services).

# Audit dimensions (continued)

## Sharing best practice

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.



# Audit dimensions (continued)

## Sharing best practice (continued)

Below are some real life examples of work done in other health bodies to demonstrate how some of these six key requirements can be applied in practice.

Relation  
with Citizen

Outcome  
focused  
partnership  
working

A health body had a patient that required an extensive care package costing approximately £3,000 per week. This was a "needs-based" package and despite the level of care provided, the patient still felt isolated and alone. As part of a transformation to service delivery, the patient's package changed from a needs-based approach to focus on their strengths.

The patient became more active through engagement with their interests (specifically, the health body helped them join a local model-aeroplane building club), and this small but significant change to service delivery approach saw the cost of the patient's care package reduce from approx. £3,000 a week to approx. £20 a week. The patient was able to largely care for himself with appropriate support in the community. Whilst this is an extreme example, this is what real transformation to service delivery represents.

Digital data analytics and insights

A Health and Social Care Partnership invested in its digital capacity to collect and process data so it can better predict chronic health issues occurring amongst patients. This investment has allowed the partnership to reduce its acute care costs as less expensive and more effective health care can be provided upfront to address potential chronic health risks predicted by the data.

A police force, in partnership with its local health body, used data to reduce acquisitive crime rates. Data identified a pattern of acquisitive crime peaking on the weekends, and the police force determined that this was largely driven by the fact that methadone prescriptions in the area were issued every Friday. A programme was implemented to stagger the prescriptions throughout the week, leading the acquisitive crime rates levelling out and becoming more manageable.

Strategic Driven – shift in culture.

Monetary incentives can help achieve a shift in culture. Currently, there are incentives and systems in place that result in money being funnelled towards hospitals. Investment in early detection and prevention requires a change. One example of such change took place in Spain in 1999 (known as the **Alzira Model**). They shifted towards long-term capitated budgets which incentivised the health care system to keep people out of hospital and to deliver effective services as cost-efficiently as possible. Reimbursement was only received by the healthcare system that provides the care to the patient, therefore the provider is incentivised to maintain and drive up the quality of care to encourage patient loyalty. Benefits which were evidenced from this model included a 27% decrease in cost per capita, 34% reduction in hospital readmissions within 3 days, 54% reduction in average A&E waiting times, average length of stay reduced by 20%, 91% patient satisfaction and 93% staff satisfaction.



# Audit dimension (continued)

## Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
<b>EU Withdrawal</b>	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p><b>Workforce:</b> the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p><b>Funding:</b> the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p><b>Regulation:</b> the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>The uncertainty around the EU withdrawal has been recognised in the IJBs MTFP and is also being considered by the Council and NHS. NHS A&amp;A is taking part in a national exercise with the Scottish Government's health workforce directorate to assess the potential impact on the workforce. The Council is much less reliant on EU nationals, but will continue to monitor any potential impact as the details develop.</p> <p>Funding and regulation of the IJB is devolved to the Scottish Government and EU withdrawal is not expected to have major impacts in these areas.</p>
<b>New financial powers</b>	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The IJB should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>

# Audit dimensions (continued)

## Specific risks (specific risks)

Risk identified	Response
<p><b>Ending public sector pay cap</b></p>	<p>The 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018.</p> <p>It has been agreed by Scottish Government that any additional costs of the pay increase in excess of 1% will be met by central funding for the NHS, whilst there is no confirmation that the Scottish Government will meet the additional cost for the Council.</p>
<p><b>Cyber security risk</b></p>	<p>The IJB do not have a specific cyber security policy in place as they use the ITC strategy of both the NHS Ayrshire and Arran and East Ayrshire Council.</p> <p>Both the NHS and Council have passed the Scottish Government’s Cyber Essentials Pre-assessment which contained some remedial actions which are common across all boards. The drive to protect against such risks are being lead by East Ayrshire Council with a highly-qualified IT and digital security team in place to combat such security threats.</p>
<p><b>Openness and transparency</b></p>	<p>From our audit work, we are satisfied that the IJB is appropriately open and transparent in its operations and decision-making.</p> <p>The IJB follows the council’s guidance and very little is held back. All meetings are public, and therefore minutes and agendas are available online. As discussed further on page 22, there is, however, scope for improvements in the level of detail reported in relation to areas where the IJB is not the Lead Partner and the consistency of information for both NHS and Council commissioned services should be reviewed.</p>

# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the IJB.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



**Pat Kenny, CPFA**

for and on behalf of Deloitte LLP

Glasgow

21 August 2018

# Audit adjustments

## Corrected misstatements and disclosures

### Corrected misstatements

The following corrected misstatements have been identified up to the date of this report:

		Debit / (credit) CIES £m	Debit / (credit) in net assets £m	Debit / (credit) prior year Reserves £m	Debit / (credit) in income £m	If applicable, control deficiency identified
<b>Misstatements identified in current year</b>						
Core Services Gross Expenditure	[1]	0.569	-	-	-	n/a
Lead Partnership Services Gross Expenditure	[1]	0.121	-	-	-	n/a
NHS Ayrshire & Arran funding	[1]	(0.690)	-	-	-	n/a
<b>Total</b>		-	-	-	-	

[1] We found that the IJB had used an incorrect data set to determine the adjustments to be made to the Comprehensive Income and Expenditure Statement as a result of lead partnership recharges. This resulted in the above immaterial adjustment.

### Disclosure misstatements

No uncorrected disclosure misstatements have been identified up to the date of this report.

# Action plan

## Follow up of 2016/17 Recommendations

---

Area	Recommendation	Progress to date
Medium Term Financial Plan	The board should prepare a medium to long term financial plan. As part of this process we would recommend that the IJB review the demand drivers and their impact on the future costs to identify the relevant mitigating actions.	The board have been successful in preparing a medium to long term plan for the period 2017/18 to 2021/22. This was formally approved by the IJB on 30 <sup>th</sup> November 2017. A funding gap of £37.9m is identified over the lifetime of the plan. <i>Fully Implemented</i>
Governance and Transparency	We recommend that the timeliness of the reporting process should be reviewed going forward to ensure that the board is receiving timely information.	This continues to be a challenge given that the Director of Health and Social Care is also a director of both funding partners and there is a differing in number of accounting periods between the council and NHS. Noting and review processes are conducted in a timeline which looks to ensure reporting deadlines are met with minimal delay. <i>Sufficiently Implemented</i>

---

# Action plan

## Current Year Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Budgeting Process	<p>At present, the IJB budget is still monitored against "EAC" and "NHS A&amp;A" managed budgets, rather than a genuine pooled budget for the IJB as a whole. As is the case across Scotland, the IJB should continue to work to resolve funding issues around shifting the balance of care between hospitals and communities.</p>	<p>IJBs are funded through budgets delegated by Councils and NHS Boards. This becomes the pooled budget. The IJB subsequently commissions services through the Council and the NHS Board in the form of the HSCP. IJBs do not directly employ staff, have dedicated financial ledgers or operate bank accounts. It is the HSCP budget that is monitored in the regular reporting. East Ayrshire IJB governance and decision-making arrangements are outlined at appendix 1 to the 2017/18 unaudited annual accounts. Work is undertaken through the various decision-making groups in partnership with the Council and NHS Board, as well as at a national level to resolve funding issues including shifting the balance of care. The IJB Chief Finance Officers Group is represented on the national Balance of Care Group which consists of key finance people from the NHS and Government. This group meets to consider various funding / balance of care issues including large hospital set-aside arrangements. In addition the pan-Ayrshire Finance / Planning Leads are undertaking work to address fair share issues in respect of set-aside resources and Lead Partnership managed services. In-year Financial Management Reports in 2018/19 will include both directly managed services, as well as NRAC fair share allocations. The target completion date of March 2019 reflects work ongoing at a local and national level.</p>	IJB Chief Officer / Professional Leads	March 2019	Medium
Financial Planning	<p>The lack of a confirmed funding position from NHS Ayrshire and Arran at the start of the financial year increases the risk of failing to achieve a balanced position. It is critical that the IJB has confirmed funding in advance of the start of the year to ensure that it has sufficient lead time to implement any changes required.</p>	<p>Since the inception of the IJB, NHS Ayrshire &amp; Arran has not approved its delegated budget in advance of the 1 April. This has resulted in the IJB being unable to approve a final balanced budget at the outset of the financial year which represents a financial risk. A draft 2018/19 budget was approved by the IJB on 26 April 2018. This draft budget incorporates the East Ayrshire Council's delegated budget approved on 22 February 2018, as well as a 2017/18 rollover delegated budget for NHS Ayrshire &amp; Arran. The NHS Board approved its 2018/19 budget on 25 June 2018 and work is being undertaken to finalise a revised 18/19 Budget report for approval by the IJB at its next meeting on 29 August 2018. This issue is not unique to East Ayrshire and has been subject to discussion between the Scottish Government and the IJB Chief Finance Officers Group where it is recognised that the elongated timescale for confirmation of Scottish Government grant funding to NHS Boards is detrimental to the requirement for IJBs to set a balanced budget by 1 April. The target completion date March 2019 reflects work ongoing at a local and national level.</p>	Scottish Government / NHS Ayrshire & Arran	March 2019	Medium



# Action plan

## Current Year Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Experience of Members	There is concern that members who have no previous healthcare experience may find the reports difficult to understand and we recommended that appropriate training be provided for members.	Three IJB Development Days have been held each year since the inception of the IJB (three planned for 2018/19). Financial presentations have been undertaken to assist IJB members as part of this process and further activities will be undertaken to meet identified training / learning requirements. An annual proposal report is tabled with the IJB each year for approval of Development Day programme. Standard topics - Financial Management, Strategic Planning, Performance, as well as operational (particular area of service). Detailed finance presentation to IJB Development Day on 22 February 2018). In addition there is an open invitation for Members to attend Strategic Planning Group meetings and the annual public conversation event. Pre-meetings established (Director of Health and Social Care / Chairs / Vice Chairs to brief members in advance of meetings (governance etc). Discussions will be undertaken to determine how this year's Financial Management presentation can assist members to enhance their understanding of all aspects of the budget.	IJB Chief Officer / Professional Leads	March 2019	Medium

# Action plan

## Current Year Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance and Reporting Arrangements	For those areas led by one of the other IJBs or NHS Ayrshire and Arran, the level of detail provided to the Board is not equivalent to the areas under their direct control. We therefore recommend that the reporting arrangements are reviewed to ensure that complete and consistent information is provided to Board members to allow them to fulfil their governance responsibilities effectively.	This issue was recognised in the review of the Integration Scheme carried out in 2017. It has been agreed across Ayrshire by the 3 IJBs, the 3 Councils and the Health Boards that the use of "Directions" for commissioning services requires more detail. This is set out in the Strategic Planning, Commissioning and Delivery of Social Care Services within Ayrshire and Arran was presented to the 3 Ayrshire Councils and the Ayrshire & Arran Health Board in June 2018. A pan Ayrshire workshop to take this forward is arranged with Scottish Government leads on 30th July 2018. East Ayrshire Financial Management Reports routinely outline risks around in-year projected overspends on services managed under Lead Partnership arrangements by North and South Ayrshire. In addition, information is provided to North and South Ayrshire on East Ayrshire hosted services (Primary Care and Out of Hours Services). Allied Health Professionals Services and Telecare which have been hosted by South Ayrshire IJB until 31 March 2018 will be managed directly within East Ayrshire from 2018/19. No additional contributions have been required to balance hosted services overspends to date. The 2017/18 overspend on Specialist Mental Health Services (hosted by North Ayrshire) was balanced by an additional allocation of non-recurring funding by NHS Ayrshire & Arran. Additional costs within Primary Care lead partnership services (hosted by East Ayrshire), including GP practices in difficulty costs, were mitigated by non-recurring slippage in 2017/18. Given the non-recurring nature of these mitigating factors, it is recognised that there are continued significant risks associated with hosted services and work can be taken forward through the Ayrshire Finance Leads group which meets on a monthly basis. Joint work is also being undertaken by Ayrshire Finance Leads / Ayrshire Planning Leads to refine 'fair share' charging methodology for lead partnership services. As highlighted previously, in-year Financial Management Reports in 2018/19 will include directly managed services, as well as NRAC fair share allocations for hosted services and set aside. The month 4 Financial Management Report will be presented to the IJB on 29 August 2018. It is noted that the East Ayrshire IJB Audit & Performance Committee agreed the 2018/19 IJB Internal Audit Plan on 29 May 2018 which includes a review of Lead Partnership arrangements.	IJB Chief Officer / Chief Finance Officer / Ayrshire Finance Leads group	August 2018	Medium

# Action plan

## Current Year Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Consistency of Reporting	We have noted that there is inconsistency in the level of detail provided for services commissioned, the Council providing information of a notably higher quality. It is important that clear and consistent information is provided to the Board for the IJB as a whole to allow the Board to perform its governance role effectively.	Both the Annual Accounts and in-year Financial Management Reports to the IJB provide detail on material issues in respect of services commissioned from both partner bodies. This includes information on cash releasing efficiency savings progress within FMRs. The narrative within the Management Commentary on pages 13 and 14 of the Annual Accounts includes 5 summaries related purely to NHS commissioned services, 4 in respect of Council commissioned services and 1 which relates to both. Discussions will be undertaken with NHS Finance colleagues to determine how in-year NHS financial information can be enhanced for future reporting purposes.	IJB Chief Finance Officer	December 2018	Medium
Review of Annual Report	In line with the Good Practice Note issued in April 2018, a review of the annual report should be performed regularly to ensure that all information is up to date. This is a point to note in the preparation of accounts in future.	Work will continue to be undertaken to ensure consistency of information for inclusion in future years' Annual Accounts.	IJB Officer / Chief Finance Officer	March 2019	Medium

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in recognition of income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Audit & Performance Committee on the process for identifying, evaluating and managing the system of internal financial control.

### Deloitte view:

From our year-end audit procedures and discussions with management, we have noted no cause for concern around the fraud arrangements in place.



# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

---

## Independence confirmation

We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

---

## Fees

The audit fee for 2017/18 is £24,000 as detailed in our Audit Plan.

No non-audit fees have been charged by Deloitte in the period.

---

## Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

---

## Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

---



# Events and publications

## Our publications and insights to support the IJB

### Publications

#### **The State of the State 2017-18**

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of the EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



#### **Sharing our informed perspective**

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

#### **Perspectives: Do you have a digital mindset?**

##### **Accelerating health and care integration**

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

#### **Article: Public sector transformation**

##### **Five lessons from the private sector**

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



Deloitte LLP does not accept any liability for use of or reliance on the contents of this document by any person save by the intended recipient(s) to the extent agreed in a Deloitte LLP engagement contract.

If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities).

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom.

Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more about our global network of member firms.