

Argyll and Bute Integration Joint Board

2018/19 Annual Audit Report



 AUDIT SCOTLAND

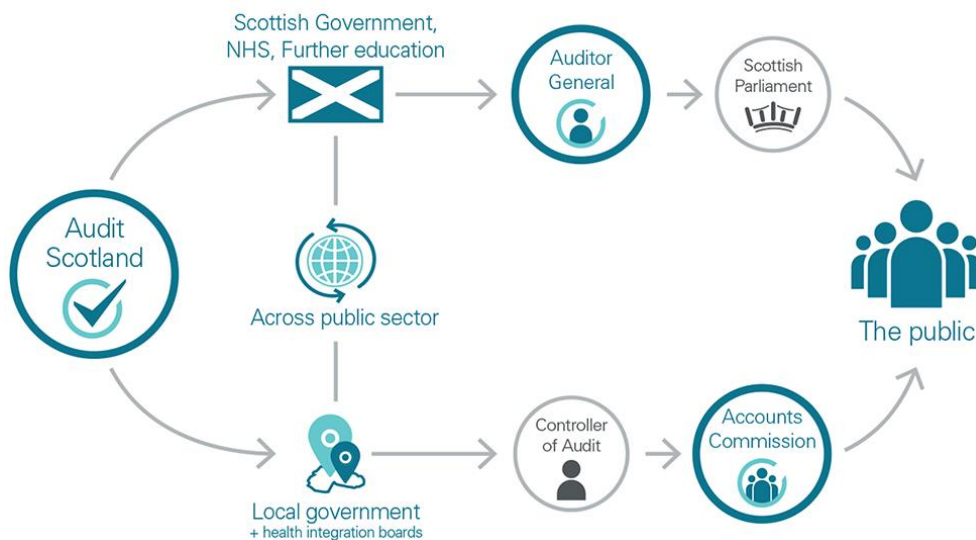
Prepared for Argyll and Bute Integration Joint Board and the Controller of Audit

25 September 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual report and accounts

- 1 Argyll and Bute Integration Joint Board's financial statements give a true and fair view of the state of affairs of the IJB as at 31 March 2019 and of its income and expenditure for the year then ended, and were properly prepared.
- 2 The management commentary, audited part of the remuneration report and annual governance statement were consistent with the financial statements and prepared in accordance with applicable guidance.

Financial management and sustainability

- 3 Financial management arrangements and the quality of financial monitoring and reporting improved during the year enabling members to scrutinise financial performance more effectively.
- 4 The IJB was unable to set a balanced budget for 2018/19 and ended the year with an overspend of £6.7 million. A financial recovery plan and tight financial 'grip and control' measures were unsuccessful in addressing the overspend. Additionally, £3.1 million of the overspend is to be repaid to the council over the next four years. This is in addition to the £1.2 million to be repaid for 2017/18.
- 5 The IJB has a poor record in delivering recurring savings and despite a renewed vigour in the delivery of savings plans there is a risk that planned savings for 2019/20 will not be achieved in full.
- 6 The IJB is facing significant budget gaps in 2019/20 and 2020/21 and savings plans to bridge these gaps have yet to be finalised and agreed.

Governance, transparency and value for money

- 7 The IJB has appropriate governance arrangements in place but there is scope for improvement particularly as they relate to the operation of the Audit Committee.
- 8 The management commentary clearly explains the IJB's financial performance and the challenges in achieving financial balance. However, the Best Value section of the annual performance report could be improved by mapping evidence against the eight Best Value themes.
- 9 As the IJB develops its savings and operational plans to deliver the required savings outcomes there is also the need to develop a robust workforce plan that is aligned to service and financial plans.

Introduction

1. This report is a summary of our findings arising from the 2018/19 audit of Argyll and Bute Joint Board (the IJB).
2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit Committee meeting on 8 March 2019. This report comprises the findings from our main elements of work in 2018/19 including:
 - an audit of the IJB's 2018/19 annual accounts including issuing an independent auditor's report setting out my opinion
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

Adding value through the audit

3. We add value to the IJB, through audit, by:
 - our early engagement with the new Chief Officer and Chief Finance Officer to understand the approach to addressing financial and service challenges, offering insights from engagements with other IJBs and sharing good practice from elsewhere
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides

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

Responsibilities and reporting

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 responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities, as independent auditor appointed by the Accounts Commission, are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice (2016), supplementary guidance, and International Standards on Auditing in the UK.

- As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:
 - the appropriateness and effectiveness of the performance management arrangements,
 - the suitability and effectiveness of corporate governance arrangements,
 - the financial position and arrangements for securing financial sustainability.

7. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the *Code of Audit Practice 2016* and supplementary guidance.

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

9. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £25,500 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

Argyll and Bute Integration Joint Board's financial statements give a true and fair view of the state of affairs of the IJB as at 31 March 2019 and of its income and expenditure for the year then ended, and were properly prepared.

The management commentary, audited part of the remuneration report and annual governance statement were consistent with the financial statements and prepared in accordance with applicable guidance.

The annual accounts are the principal means by which the Board accounts for the stewardship of the its resources and its performance in the use of those resources.

Audit opinions on the annual accounts

- 13.** The annual accounts for the year ended 31 March 2019 were approved by the board on 25 September 2019. We reported within the independent auditor's report that:
- the financial statements give a true and fair view and were properly prepared
 - the audited part of the remuneration report, management commentary, and annual governance statement were all consistent with the financial statements and properly prepared in accordance with proper accounting practices.

14. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, and the information and explanations we received.

Submission of annual accounts for audit

15. We received the unaudited annual accounts on 28 June 2019 in line with our agreed audit timetable. The unaudited accounts and supporting working papers were of a good standard. Also, finance staff provided good support to the audit team which helped ensure the audit process ran smoothly.

Risks of material misstatement

16. Appendix 2 provides a description of those assessed risks of material misstatement in the financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

17. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

18. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The

assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

19. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically, regarding the annual accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the unaudited annual accounts we reviewed our materiality calculations and concluded that they remained appropriate.

Exhibit 2 Materiality values

| Materiality level | Amount |
|-------------------------|----------------|
| Overall materiality | £2.65million |
| Performance materiality | £1.86 million |
| Reporting threshold | £0.130 million |

Source: Audit Scotland, 2018/19 Annual Audit Plan

Significant findings from the audit in accordance with ISA 260

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

22. The accounts submitted for audit were of a good standard. There were no significant findings arising from our audit and there were no material adjustments to the unaudited annual accounts. We identified some presentational issues, and these were accepted by management and adjusted in the audited accounts.

Follow up of prior year recommendations

23. The last year has been extraordinary and challenging. However, the IJB has made good progress in implementing prior years' recommendations and five of the seven recommendations in our 2017/18 Annual Audit Report have been addressed.

24. Of the two remaining recommendations, progress has been made but the actions have not been fully implemented. These relate to the development of a longer-term financial strategy (see comments at paragraphs 50 and 51) and workforce planning (refer paragraphs 76 and 77).

Part 2

Financial management and sustainability



Main judgements

Financial management arrangements and the quality of financial monitoring and reporting improved during the year enabling members to scrutinise financial performance more effectively.



The IJB was unable to set a balanced budget for 2018/19 and ended the year with an overspend of £6.7 million. A financial recovery plan and financial 'grip and control' measures were unsuccessful in addressing the overspend. Additionally, £3.1 million of the overspend is to be repaid to the council over the next four years. This is in addition to the £1.2 million to be repaid for 2017/18.

The IJB has a poor record in delivering recurring savings and despite a renewed vigour in the delivery of savings plans there is a risk that planned savings for 2019/20 will not be achieved in full.

The IJB is facing significant budget gaps in 2019/20 and 2020/21 and savings plans to bridge these gaps have yet to be finalised and agreed.

Financial management arrangements and the quality of financial reporting improved during the year enabling members to scrutinise financial performance more effectively

25. Budget monitoring reports are submitted to each meeting of the IJB for review. For most of the year these reports contained information on year to date financial position, forecast out turn for the year, a high-level variance analysis, information on savings and financial risks. The reports contained sufficient information to demonstrate that the IJB was overspending its budget but lacked sufficient detail to enable members to assess and challenge the true extent of the financial position. The situation was not helped by two Chief Finance Officers leaving the IJB in the eight-month period from April to November 2018.

26. There was a marked improvement in the budget monitoring reports presented to the IJB board from January 2019. This coincided with the period when Argyll and Bute Council's Head of Strategic Finance was acting as interim Chief Financial Officer (CFO). The Interim CFO brought a renewed, and much needed, vigour and discipline to financial monitoring arrangements. This included more detailed analysis of budget variances including comprehensive explanations for the pressures impacting on financial performance. Additionally, the Interim CFO led on a budget challenge exercise which resulted in more realistic and deliverable savings plans.

27. On 1 June 2019, the Interim CFO was replaced by the current Head of Finance and Transformation who has retained the form and content of the budget monitoring reports and the regular reports on budget outlook, and financial risks and has further enhanced financial performance reporting to track progress on savings plans. The suite of financial performance reports now available to IJB members allows them to monitor, assess and challenge the financial position more effectively.

Good financial management results from financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

The IJB was unable to set a balanced budget for 2018/19 and ended the year with an overspend of £6.7 million. A financial

recovery plan and financial ‘grip and control’ measures were unsuccessful in addressing the overspend. Additionally, £3.1 million of the overspend is to be repaid to the council over the next four years. This is in addition to the £1.2 million to be repaid for 2017/18

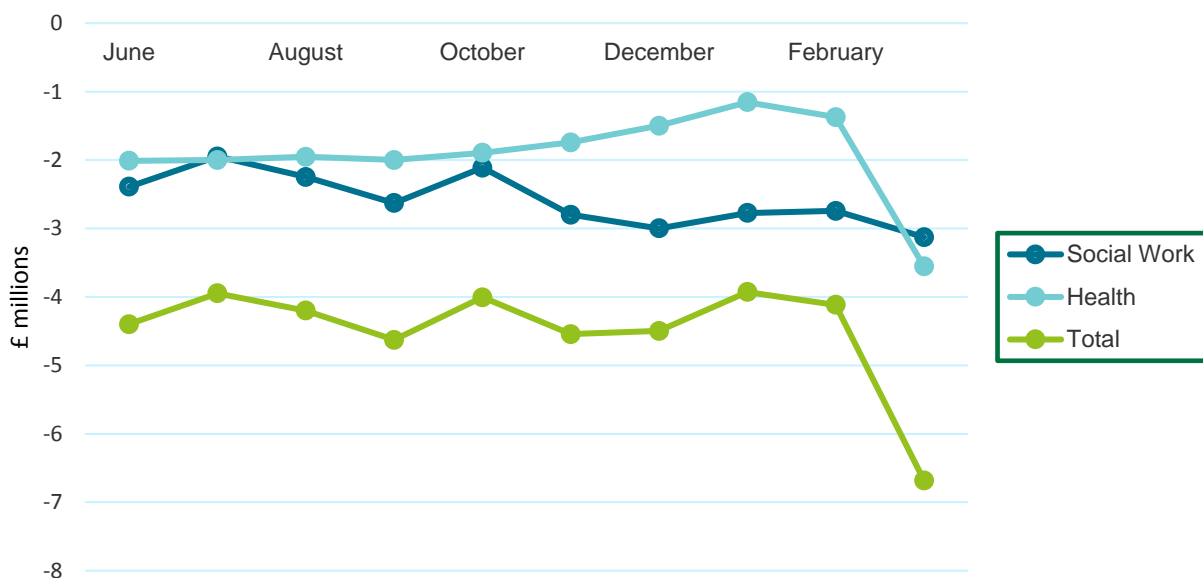
28. The Board were unable to set a balanced budget for 2018/19 which presented the organisation with a significant financial challenge at the very beginning of the year from which it was never able to recover. A budget was set based on funding offers made by the partner bodies. However, projected expenditure for the year exceeded the budget by £12.2 million. An agreed savings plan was put in place for £10.6 million which still left a funding gap of £1.6 million. Therefore, Board members were advised in May 2018 that there was a high risk that financial balance would not be achieved in 2018/19.

29. A financial recovery plan was not implemented until August 2018 to address in-year overspends and attempt to return to financial balance. Failure to implement a recovery plan until five months after the funding gap was identified and nearly halfway through the financial year was a further significant contribution to the inability of the IJB to address the forecast deficit. The financial recovery plan itself failed to recognise the time needed to implement the action required to deliver savings and was therefore unsuccessful in providing an achievable solution to the financial challenge.

30. It was not until a new Chief Officer was appointed in October 2018 that “grip and control” measures were introduced to stabilise the financial position and slow down the run-rate of the overspend. These measures included daily review/authorisation of all non-essential and non-clinical expenditure, reduced authorisation limits for expenditure and central approval of expenditure procured through the PECOS system. The appointment of the interim CFO on 1 December 2019 further reinforced these measures through more robust financial planning, monitoring and reporting. However, whilst these measures were successful in reducing expenditure, stabilising the financial position and reducing the run-rate, they were too late to prevent the £6.7m overspend reported at the year-end.

31. The financial position further deteriorated significantly in February 2019 due to a £1.2 million dispute over an SLA agreement with NHS Greater Glasgow and Clyde, as illustrated in [Exhibit 3](#) below. The dispute remains unresolved.

Exhibit 3 IJB Outturn Movement 2018/19



Source: Integration Joint Board Annual Accounts

32. Of the £6.7 million overspend just over half (£3.6 million) was attributable to Health services and the balance (£3.1 million) to Social Work services. The Health Services overspend was covered by Scottish Government brokerage and does not need to be repaid. The social work overspend requires to be repaid as detailed in paragraph 41 following.

33. In summary the financial balance was not achieved in 2018/19 for several reasons including:

- unidentified savings of £1.6 million at the start of the year, for which no recurring savings were identified to offset
- ongoing service pressures and budget overspends in areas such as medical agency and locum costs, prescribing costs, high cost care packages and higher demand for social care services (e.g. residential care places)
- slippage in the delivery of recurring savings included within the Quality and Finance Plan
- exceptional charges outwith the main Service Level Agreement with NHS Greater Glasgow and Clyde and higher than anticipated price increases on the main service level agreement.

34. The position would have been significantly worse were it not for underspends in other areas of health and social services budgets being used to offset overspends.

35. The situation was exacerbated by the turnover of key staff during the year. The Chief Officer left at the end of September 2018 and a new Chief Officer was appointed on 1 October although there had been one month's overlap to ensure a seamless transition. Two Chief Financial Officers departed during the year and from 1 December 2018 to 30 June 2019 interim cover was provided by the Council's Head of Strategic Finance. This was in addition to her normal council duties.

36. The turnover of senior staff resulted in a reduced focus on delivering approved savings. The appointment of a new Head of Finance and Transformation (Chief Financial Officer) on 1 June 2019 is a positive development.

The IJB has insufficient reserves to cushion the impact of any future overspends and is unlikely to have so in the foreseeable future

37. The Scheme of Integration states that the IJB may retain any underspend to build up its own reserves. In March 2017, the IJB approved a reserves policy which sets the governance for creating and holding reserves. The policy is consistent with the legislative requirements outlined in the Local Government Scotland Act 1973.

38. The IJB's reserves policy states that over the medium term a prudent level of general fund reserves would be 2% of net expenditure which would be approximately £5 million. Management acknowledge that this is aspirational and unlikely to be achieved in the foreseeable future.

39. An important reason for holding reserves is to build a contingency to cushion the impact of unexpected events or emergencies such as unexpected and unplanned overspends against budget. However, at the start of 2018/19 the IJB had a reserves balance of only £104,000 which was significantly short of the level of reserves envisaged under the IJB's Reserves Policy. This earmarked reserve

balance was fully drawn down during 2018/19 for its designated purpose. Opening reserves were wholly inadequate to meet the scale of the financial challenge. At the end of 2018/19 an earmarked reserve of £325,000 was created within the General Fund as a result of underspends of specific funding allocations in health. This level of reserves remains significantly short of the level envisaged under the IJBs Reserves Policy.

Argyll and Bute council provided additional funding of £3.1million to cover the Social Services element of the IJB overspend and this must be repaid

40. The Scheme of Integration states that where financial recovery plans are unsuccessful and an overspend occurs at the financial year end, and there are insufficient reserves to meet the overspend, then the Partner Bodies will be required to make additional payments to the IJB.

41. In line with the Scheme of Integration the Partner Bodies provided additional funding to cover the 2018/19 overspend. The health element of the overspend was covered by SG brokerage and does not need to be repaid. However, the overspend on Social Work services must be repaid. Payback arrangements have been negotiated with Argyll and Bute Council for overspends incurred in both 2017/18 and 2018/19 as detailed in [Exhibit 4](#). The money due to the council will be deducted from future funding. This is a significant addition to the financial pressures facing the IJB in future years and has been included in baseline budgets from 2019/20 onwards.

Exhibit 4 Phased repayment of Social Services overspends

| Financial Year | Repayment 2017/18 Overspend £000 | Repayment 2018/19 Overspend £000 | Total Repayment £000 |
|----------------|---|---|-------------------------|
| 2019/20 | 100 | 0 | 100 |
| 2020/21 | 300 | 800 | 1,100 |
| 2021/22 | 755 | 1,000 | 1,755 |
| 2022/23 | 0 | 1,327 | 1,327 |
| Total | 1,155 | 3,127 | 4,282 |

Source: Argyll & Bute Health and Social Care Partnership Annual Performance Report 2018/19

The IJB has set a balanced budget for 2019/20 but significant challenges lie ahead in maintaining financial balance

42. The IJB at its meeting in March 2019 agreed a balanced budget for 2019/20. The latest budget monitoring report submitted to the IJB in August 2019 reported a small underspend of £59,000 for the first quarter of the financial year. This consisted of an overspend of £302,000 within Social Work services offset by a year to date underspend of £361,000 within Health services.

43. However, the same report forecasts an overspend of £2.8 million by 31 March 2020 of which £2.3 million is attributable to Social Services due to slippage in delivering savings combined with a higher demand for services than budgeted. The health overspend is forecast as £0.500 million due to locum/agency costs, rising pharmacy costs and increases in drug costs. Management expect that the health

overspend can be contained through on-going financial 'grip and control' of expenditure. A financial recovery plan has been agreed by the IJB on 7 August 2019 to bring the forecast overspend back into financial balance which includes £700k of new in-year savings.

44. One significant risk though is the ongoing dispute with NHS Greater Glasgow and Clyde over an SLA agreement which could see the forecast overspend increase by a further £2 million in the current year. This dispute has yet to be resolved and is a significant risk to achieving financial balance.



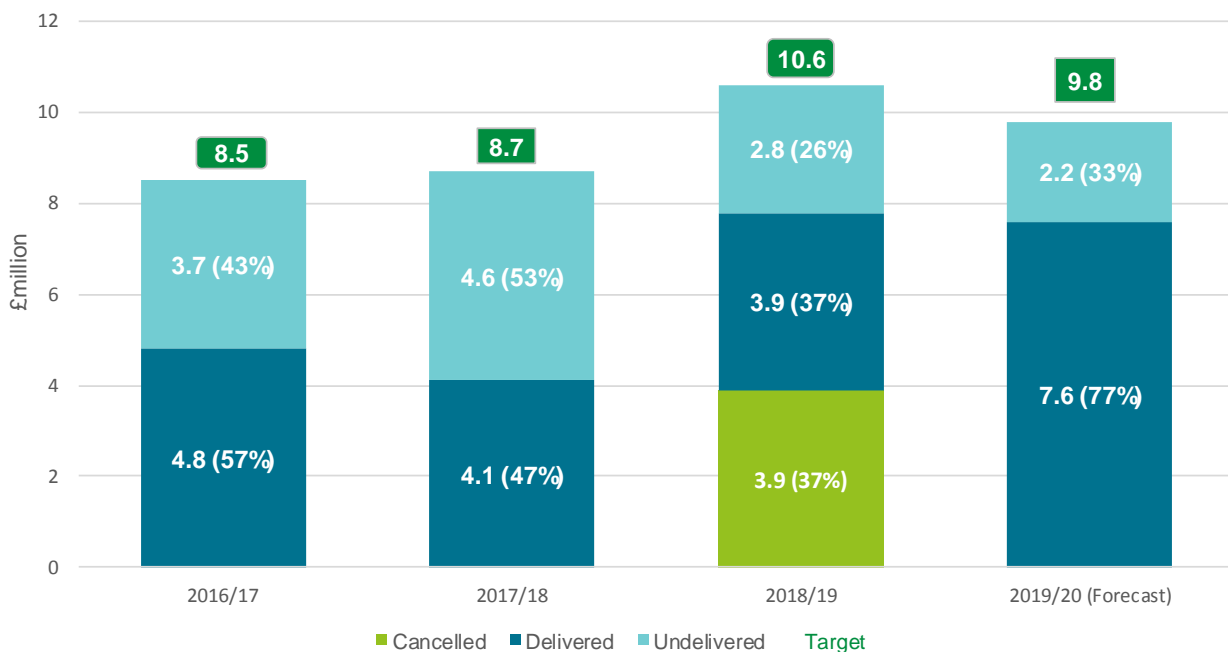
Recommendation 1

The IJB needs to bring the 2019/20 in-year financial position into balance or at the very least set a challenging, but achievable, target overspend that can be addressed through future savings plans.

The IJB has a poor record in delivering recurring savings and despite a renewed vigour in the delivery of savings plans there is a risk that planned savings for 2019/20 will not be achieved in full

45. Savings are crucial in ensuring that any budget gaps are bridged, and financial balance maintained. The IJB has a poor record of delivering savings as illustrated in [Exhibit 5](#).

Exhibit 5 Delivery of savings 2016/17 to 2019/20 (forecast)



Source: Audit Scotland Annual Audit Reports 2016/17 and 2017/18 and IJB financial monitoring reports

46. The IJB has not delivered against its savings targets for the last three years with undelivered savings rolled forward into subsequent years.

47. The Quality and Finance Plan approved by the IJB in March 2018 set savings targets of £10.6 million for 2018/19 and £11.1 million for 2019/20. Subsequently,

these were found to be unrealistic and undeliverable. In March 2019, the agreed savings targets of £3.8 million and £6.2 million for 2018/19 and 2019/20 were agreed. The target for 2019/20 has since been revised upwards to £9.8 million including £2.8 million of undelivered savings brought forward from 2018/19.

48. Financial management information for the period to 31 July 2019 is showing that £4.56m (46%) of the £9.82m has been delivered in the year to date, but is forecasting that only 77% of savings will be achieved in the full year. The risk that approved financial savings will not be delivered in 2019/20 remains high. The Quality and Finance Plan Programme Board now meet monthly to review and scrutinise savings plans and progress, and to identify alternative savings options.

49. While these are positive developments and provide substantially more rigour into the savings plan management and monitoring arrangements at the IJB, the Quality and Finance Plan Programme Board needs to satisfy itself that identified savings plans are achievable and robustly risk assessed. Additionally, there is a need to inject more pace in delivery of actions required to achieve financial savings and bring about a position of recurring financial balance.



Recommendation 2

In order to reach a position of recurring financial balance the Board should increase the pace of actions designed to achieve financial savings.

Progress has been made with medium term financial planning and this is a good foundation for developing a longer-term financial strategy

50. Medium and long-term financial planning is an important part of good financial management. The IJB has yet to develop a long-term financial plan that it is aligned to its strategic objectives. However, the IJB has developed a medium-term outlook report covering a three-year period. It includes assumptions about future inflation levels, funding and cost and demand pressures. Also, it sets out the financial position under three different scenarios i.e., best case, mid-range and worst case. Additionally, the board now receives regular budget outlook updates to inform revisions to the plan.

51. The preparation of budget outlook reports is a step in the right direction and provides a good foundation for longer-term financial planning. We recommend that public bodies develop a long-term financial strategy covering a period of five to ten years. Exhibit 3 within the Audit Scotland publication [Scotland Public Finances – A follow-up audit: Progress in meeting the challenges \(June 2014\)](#) outlines what such a strategy should include. It is recognised that this is difficult in light of the current financial challenge at the IJB. However, longer term planning is increasingly important as demand pressures increase, financial settlements continue to reduce for partner bodies and fundamental service re-design over a longer time becomes necessary.

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



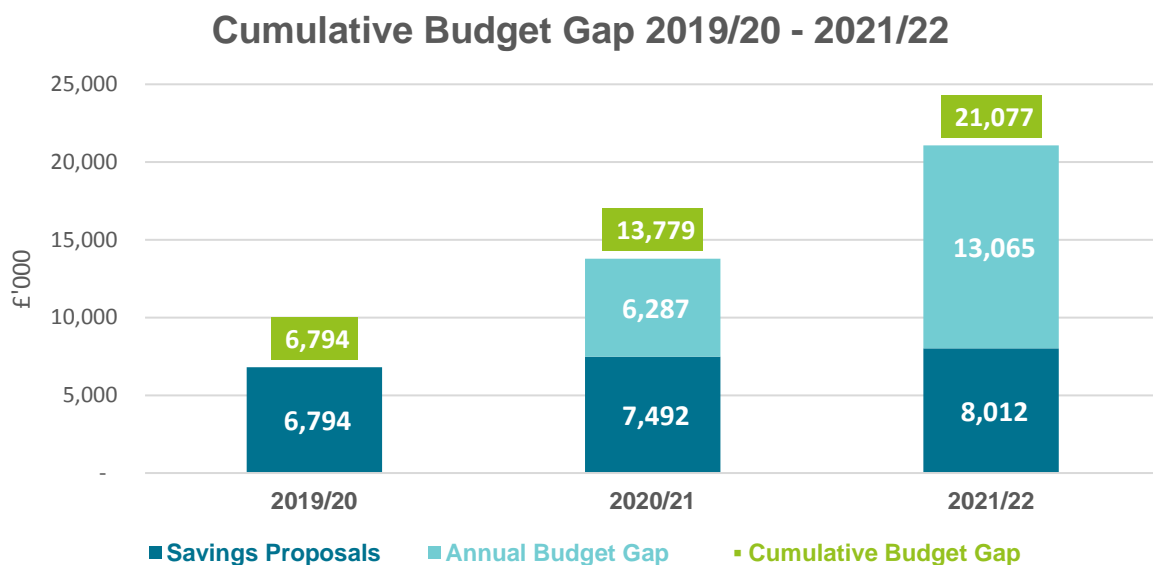
Recommendation 3

The IJB should use build on work already undertaken in preparing a three-year budget outlook to develop a long-term financial strategy in line with the recommendations set out in Audit Scotland's report on Scotland's Public Finances (2014).

The IJB is facing significant budget gaps in 2019/20 and 2020/21 and savings plans to bridge these gaps have yet to be finalised and agreed

52. The budget outlook in the 2018/19 accounts covers the period 2019/20 to 2021/22 and forecasts that by 2021/22 the IJB will be facing a cumulative budget gap of £ 21.077 million based on a mid-range scenario. The delivery of meaningful, recurring savings is fundamental to bridging the gap, but after taking account of approved savings plans a significant gap in excess of £13m still remains to be addressed as illustrated in Exhibit 6.

Exhibit 6 Cumulative budget gap 2019/20 to 2021/22



Source: Integrated Joint Board papers March 2019

53. Savings proposals to bridge the funding gaps forecast for 2020/21 and 2021/22 have yet to be finalised and approved although it is noted that the IJB has started to consider savings proposals in August which is earlier than in previous years. There is a risk that the budget gap will increase if all of the agreed savings are not delivered in 2019/20.



Recommendation 4

The IJB should develop plans which can deliver enough savings to bridge funding gaps over the medium term.

The IJB relies on the internal control systems of partner bodies and the external auditors of these bodies provided assurance that there were no significant control weaknesses

54. Argyll and Bute IJB does not have any financial systems of its own. It relies upon the financial systems of partner organisations - NHS Highland and Argyll and Bute Council - including ledger and payroll. All transactions of the IJB are processed through these partner organisations and they are responsible for maintaining internal controls.

55. As part of our audit approach we sought assurances from the external auditors of NHS Highland and Argyll and Bute Council (in accordance with IAS 402). They confirmed that their work had not identified any weaknesses in the partner bodies systems of internal control.

Internal audit generally complies with Public Sector Internal Audit Standards (PSIAS)

56. Internal audit is an important element of the internal control framework established by management. It provides senior management with assurance on the IJB's risk management, internal control and corporate governance processes.

57. The internal audit function is provided by Scott Moncrieff. A central review of the adequacy of the internal audit function was carried by colleagues within Audit Scotland who shared their findings with us. They concluded that internal audit generally complied with PSIAS.

58. The [Code of Audit Practice 2016](#) encourages external auditors to use the work of internal audit to avoid duplication of effort wherever possible. In 2018/19 we did not use the work of internal audit, but we took account of their reported findings and key messages in planning our work.

Adequate arrangements are in place for the prevention and detection of fraud and error

59. The IJB places reliance on anti-fraud policies and strategies of both Argyll and Bute Council and NHS Highland. Based on our review of the evidence we concluded that adequate arrangements are in place for the prevention and detection of bribery and corruption. Also, we are not aware of any specific issues that need to be brought to members attention.

Part 3

Governance, transparency and value for money



Main judgements

The IJB has appropriate governance arrangements in place but there is scope for improvement particularly as they relate to the operation of the Audit Committee.



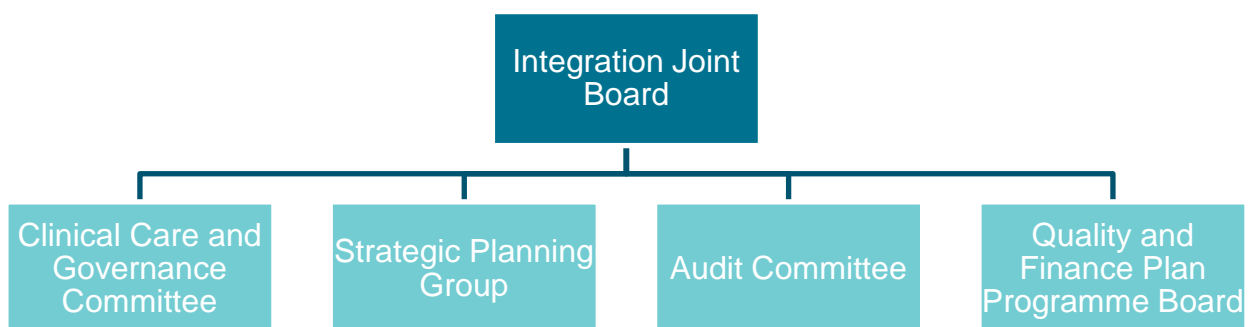
The management commentary clearly explains the IJB's financial performance and the challenges in achieving financial balance. However, the Best Value section of the annual performance report could be improved by mapping evidence against the eight Best Value themes.

As the IJB develops its savings and operational plans to deliver the required savings outcomes there is also the need to develop a robust workforce plan that is aligned to service and financial plans

The IJB has appropriate governance arrangements but there is scope for improvement particularly as they relate to the operation of the Audit Committee

60. The IJB's governance arrangements are centred on a board supported by committees and other groups as set out in [Exhibit 7](#).

Exhibit 7 Integration Joint Board governance structure



Source: Board papers May 2018

61. The main governance committees are the Clinical Care and Governance Committee, Audit Committee, and Quality and Finance Plan Programme Board. In addition, a Strategic Planning Group is required by statute. Its role is to support the IJB in preparing, consulting and publishing a Strategic Plan for Integrated Health and Social Care services, and to review progress in delivering the Strategic Plan.

62. Papers are provided to board members at least one week in advance for review. Generally, papers are of a good quality and include clear actions requiring

approval. From our attendance at board meetings we observed that ample time is given to discussing items on the agenda. Also, members are free to voice their opinions. Additionally, there are regular development sessions for members to improve their understanding of the work of the IJB and support them in their scrutiny role.

63. The opportunity exists to further clarify and strengthen the IJBs governance arrangements in respect to its Audit Committee:

- There have been several administrative issues during the year, including some difficulties with scheduling of meetings (e.g. in June 2019 dates of future meetings had still to be agreed), and quorum problems leading to cancellation. We would acknowledge the geographic challenges faced by the IJB as well as the challenges presented in the year due to the many changes in committee members and senior officers. However, solutions must be found so that the Committee operates more effectively. To that end, the Council has agreed to provide committee administrative support from September, 2019.
- There have been some inaccuracies in the minutes in relation to attributing points for action. This may be due to some confusion over the respective roles of the IJB's Internal Audit function, internal audit at the two partner bodies and external audit. This should be resolved as part of the governance review, and as officers involved become more familiar with the parties involved.
- There has been considerable discussion at Audit Committee meetings around the precise role of the Committee and of how much involvement it should have in financial monitoring, performance review and scrutiny. The terms of reference for the Audit Committee are being reviewed by the IJBs Monitoring Officer, as part of the wider review of governance.

64. The Audit Committee Terms of Reference should be finalised as a matter of priority and should confirm its role as an audit and governance review group.

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.



Recommendation 5

The review of the Audit Committee's governance arrangements, including terms of reference, should be concluded and approved promptly.

The IJB has arrangements in place that support openness and transparency

65. Transparency means that the general public has access to understandable, relevant and timely information about how the IJB is taking decisions and how it is using resources.

66. There is evidence from several sources which demonstrate the IJB's commitment to transparency. Board agenda, papers and minutes are readily available on the IJB's website. Also, Board papers are readily available to the public on the IJB's website.

67. The Audit Committee is not open to the public nor are committee papers available on the IJB's website. However, the IJB receives copies of Audit Committee minutes outlining issues discussed. These are available on the IJB's website within the Board papers.

The management commentary clearly explains the IJB's financial performance and the challenges in achieving financial balance. However, the Best Value section of the annual performance report

could be improved by mapping evidence against the eight Best Value themes

68. The management commentary that accompanies the financial statements should clearly explain how a body has performed against its budget and how this is reconciled to the financial statements.

69. From our review of the management commentary we concluded that it was of a good standard and explained clearly and transparently the difficult financial position faced by the IJB. Also, it included:

- a clear explanation of the outturn against budget position for the year with reasons for significant variances explained;
- a reconciliation between the Comprehensive Income and Expenditure Statement to financial outturn;
- details of the medium-term financial outlook under three different scenarios i.e. Best case, worst case and mid-range; and
- significant financial risks and challenges facing the IJB.

70. The Board is required by the Public Bodies (Joint Working) (Scotland) Act 2014 to produce an annual performance report. The IJB approved the 2018/19 Annual Performance Report at its August 2019 meeting. It provides a comprehensive assessment of performance including progress in delivering local and national priorities. However, the Best Value section of the report does not clearly articulate how Best Value is being delivered against the eight Best Value themes. The themes are:

- Vision and Leadership
- Governance & Accountability
- Effective use of resources
- Partnership & Collaborative Working
- Community Responsiveness
- Fairness & Equality
- Sustainability
- Performance, Outcomes & Improvement

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



Recommendation 6

The Best Value section of the Annual Performance Report should set out succinctly the evidence showing how Best Value is being delivered against the eight Best Value themes.

71. The Annual Performance Report has been uploaded to the IJB's website for the public to access.

There is evidence of the IJB's commitment to Best Value and continuous improvement

72. Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public. It is a statutory duty for local authorities including Integrated Joint Boards. The IJB should have effective arrangements for scrutinising performance and monitoring progress towards strategic objectives.

73. Our audit work focuses on the four audit dimensions which form the basis of Best Value. These are set out in [Exhibit 1](#) on page 5 of this annual audit report. The audit findings throughout this report comment on arrangements that have been put

in place by the IJB to secure Best Value including financial sustainability, financial management, governance and performance. We have identified areas for improvement including workforce planning and long-term financial planning.

74. The IJB receives quarterly performance reports which provide a 'scorecard' showing performance against national health and well-being outcomes. They provide information where performance is improving, and outline actions being taken to address areas of poor performance.

75. Overall, there is evidence that the IJB is committed to Best Value and continuous improvement.

As the IJB develops its savings and operational plans to deliver the required savings outcomes there is also the need to develop a robust workforce plan that is aligned to service and financial plans

76. In our previous two Annual Audit Reports we reported that the IJB did not have an overarching plan which set out clearly what resources were required for service delivery. The risk being that in the absence of such a plan the IJB would find it difficult to address its future staffing and skills needs. It was agreed that an organisation-wide workforce plan focused on the development of the workforce would be in place by 2019.

77. From our discussions with officials and a review of available evidence we are aware that progress has been made. Initially, officers intended to bring a high-level overarching workforce plan to the IJB meeting in October 2019, but this has now been deferred until November 2019. Also, there is recognition, by senior management, that service, financial and workforce plans are not fully integrated. Achieving this will be very challenging given the difficult financial context and will take more time to develop.



Recommendation 7

Workforce planning should be progressed and integrated with service and financial plans.

National performance audit reports

78. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19 we published some reports which are of direct interest to the board as outlined in Appendix 3.

Appendix 1

Action plan 2018/19



| No. | Issue/risk | Recommendation | Agreed management action/timing |
|-----|--|---|--|
| 1 | <p>Forecast overspend in 2019/20</p> <p>The latest budget monitoring report is forecasting an overspend of £2.8 million.</p> <p>Risk – failure to resolve the dispute with NHS greater Glasgow and Clyde lead to an increase costs of £2 million being incurred in 2019/20 which could undermine plans to achieve financial balance in 2019/20.</p> | <p>The IJB needs to bring the 2019/20 in-year financial position into balance or at the very least set a challenging, but achievable, target overspend that can be addressed through future savings plans.</p> <p>Paragraph 44</p> | <p>Agreed. The forecast overspend to end of July has improved to £2.1m. Work is continuing to pull back overspend through additional efforts to deliver new and previously agreed savings, and to agree a position with NHS GG&C</p> <p>Chief officer/ Chief Financial Officer</p> <p>March 2020</p> |
| 2 | <p>Savings plans</p> <p>Savings are not being delivered at sufficient pace to achieve recurring financial balance.</p> <p>Risk – failure to achieve recurring financial balance</p> | <p>In order to reach a position of recurring financial balance the Board should increase the pace of actions designed to achieve financial savings.</p> <p>Paragraph 49</p> | <p>Agreed. Quality & Finance Plan Programme Board is now meeting monthly and receiving more detailed information about the actions to deliver savings</p> <p>Chief Officer / Chief Financial Officer</p> <p>September 2019</p> |
| 3 | <p>Medium to long term financial planning</p> <p>Medium term financial planning has been progressed through the development of three-year budget outlook reports. A longer-term financial strategy over a five to 10-year period has not yet been developed. This has been reported in previous years.</p> <p>Risk – the IJB may not be able to respond to, or manage, significant financial risks in the long term.</p> | <p>The IJB should build on work already undertaken in preparing a three-year budget outlook to develop a long-term financial strategy in line with the recommendations set out in Audit Scotland's report on Scotland's Public Finances (2014).</p> <p>Paragraph 51</p> | <p>Agreed in principle, however, this is aspirational whilst funding is based on single year settlements. Unlikely to progress until this changes.</p> |
| 4 | <p>Efficiency savings</p> <p>The finance report submitted to the IJB at its March 2019</p> | <p>As a priority, the IJB should develop and agree savings</p> | <p>Savings plans are in development for 2020/21 and a number of Transformaing</p> |

meeting forecast that the budget gaps for 2020/21 and 2021/22 were £6.985 million and £14.283 million respectively. Savings plans have yet to be fully developed to address these gaps.

Risk – the IJB may not be able to identify and deliver savings plans that will cover funding gaps in the medium term.

plans to bridge funding gaps in the medium term.

[Paragraph 53](#)

Together workstreams are in progress which will result in medium term savings to help bridge the gap. Work is planned to bridge these gaps over the medium term

Chief Officer / Chief Financial Officer

March 2020

5 Governance arrangements

A review of governance arrangements is underway. But there are aspects of the Audit Committee's governance arrangements that need to be addressed as a priority.

Risk - The Audit Committee may not be carrying out its governance responsibilities in an efficient and effective way.

The review of the Audit Committee's governance arrangements, including terms of reference, should be concluded and approved promptly.

[Paragraph 64](#)

The current terms of reference are fit for purpose. They will be reviewed in line with the overall review of governance arrangements

IJB's Monitoring officer

March 2020

6 Workforce planning

In previous years we have reported that the IJB needs to develop an overarching workforce plan. A workforce plan has yet to be finalised and approved. Also, such a plan cannot be developed in isolation but needs to be integrated with financial and service plans.

Risk – In the absence of integrated planning, the IJB will be unable to manage its staff resources effectively.

Workforce planning should be progressed and integrated with service and financial planning.

[Paragraph 77](#)

In progress. To be presented to November IJB.

Head of Customer Support Services

November 2019

7 Best Value

The Best Value section of the Annual Performance Report lacks detail on how Best Value is being delivered.

Risk – The IJB is unable to demonstrate that Best Value is being delivered in all key areas.

The Best Value section of the Annual Performance Report should set out succinctly the evidence that shows how Best Value is being delivered against the eight Best Value themes.

[Paragraph 70](#)

Agreed. Will be incorporated into 2019/20 Annual Performance Report

Chief Financial Officer / Head of Strategic Planning & Performance

June 2020

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|--|
| Risks of material misstatement in the financial statements | | |
| <p>1. Risk of management override of controls</p> <p>ISA (UK) 240 [<i>The auditor's responsibilities relating to fraud in an audit of financial statements</i>] requires that audit work is planned to consider the risk of fraud, which is presumed to be a risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p> | <ul style="list-style-type: none"> Procedures including testing of journals and other adjustments in the preparation of the annual accounts. An assessment of the methodology applied, and the reasonableness of estimates contained in the financial statements. Evaluation of financial statement assurances provided by the external auditors of the IJB's partner bodies. Evaluation of significant transactions that are outside the normal course of business. | <p>Satisfactory written assurances were received from the external auditors of the council and health board regarding accounting estimates, journal testing and accuracy, allocation and cut-off of IJB transactions.</p> <p>No significant estimates have been applied in preparing the financial statements, and there were no significant transactions outside the normal course of business.</p> <p>No fraud concerns were identified from our work in relation to the risk of management override of control.</p> |
| <p>2. Risk of fraud over income and expenditure</p> <p>Under ISA (UK) 240 there is a presumed risk that income may be misstated due to the improper recognition of income. The presumption is that the IJB could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p> <p>Practice Note 10 issued by the Financial Reporting Council expands this to recognise that most public sector bodies are spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.</p> | <p>The IJB receives its income by way of budget allocations from its partner bodies i.e. Argyll and Bute Council and NHS Highland, then commissions services in line with its Strategic Plan. This limits the scope for manipulation, therefore we have rebutted the presumed risk of improper recognition of income.</p> <p>IJB expenditure is processed through the financial systems of its respective partner bodies, therefore the risk of manipulation is deemed a risk at these bodies rather than at the IJB. We obtain assurances from the external auditors of the partner bodies as to accuracy and completeness of transactions allocated to the IJB, so have rebutted the risk</p> | <p>We rebutted the risks of fraud over income and expenditure, so did not undertake any direct audit work in these areas.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|------------|--|-------------------------|
| | of improper recognition of expenditure within the IJB. | |

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

3. Financial sustainability

Forecast outturn and budget gap

Financial sustainability continues to be a significant risk to the IJB. The latest forecast outturn position, as at 31 December 2018, was an overspend of £4.398 million. The main reason for the overspend is a forecast shortfall in planned savings for 2018/19 of £7.177 million. It is unlikely, therefore, that the IJB will achieve financial balance by the end of the financial year which will increase the financial pressures for 2018/19 and beyond.

Additionally, there is a risk that the overspend will increase by a further £1.1 million should proposed cost increases in the Service Level Agreement with NHS Greater Glasgow and Clyde be confirmed.

In the mid-range scenario option, the budget gap estimated for the three-year period 2019/20 to 2021/22 is £16.891 million with a gap of £6.572 million occurring in 2019/20.

Savings targets

Latest savings targets are for £10.954 million in 2018/19 and £11.471 million in 2019/20. As noted above, the shortfall for 2018/19 is currently forecast to be £7.177 million, whilst for 2019/20 it is anticipated that only £6.437 million out of the total savings target will be achieved leaving a shortfall of £5.034 million.

There is a risk that if effective savings plans are not implemented this will undermine the IJB's ability to maintain financial balance.

- Review the IJBs arrangements for delivering in-year savings

The IJB has not delivered in-year savings. The departure of two Chief Financial Officers during the year resulted in less focus on delivering savings (refer paragraphs 46 to 49).

- Assess progress in delivering the three-year recovery plan, highlighted as a management action in our 2017/18 Annual Audit report.

The recovery plan has been unsuccessful in delivering planned savings and achieving financial balance (refer paragraph 29).

- Review of the Quality and Finance Plan.

Following a review led by the Interim Chief Financial Officer, the savings targets proposals included in the Quality and Finance Plan for 2018/19 and 2019/20 were deemed unrealistic and not deliverable. A detailed review of the plan resulted in revised savings targets for 2018/19 and 2019/20 being proposed and agreed by the IJB (refer paragraph 47).

- Review of the IJB's process for identifying and agreeing savings.

There has been a renewed rigour in identifying and agreeing savings. Savings proposals are risk assessed. Also, the Quality and Finance Plan Programme Board meet monthly to review savings plans and identify potential savings (refer to paragraph 49).

| Audit risk | Assurance procedure | Results and conclusions |
|--|---|---|
| <p>Medium to long-term financial planning</p> <p>The IJB has still to develop a medium to long term financial plan. Until such a plan is in place the IJB will be unable to demonstrate how it will make the required savings and deliver the key priorities within available financial resources.</p> | <ul style="list-style-type: none"> High level review of medium- and long-term financial planning. | <p>The IJB has developed medium term financial planning arrangements based on a three-year budget outlook. Also, the budget outlook for future years has been prepared using three different scenarios - best case, mid-range and worst case (refer paragraphs 50 and 51).</p> |
| <h4>4. Financial management</h4> | | |
| <p>Budget setting</p> <p>The IJB has yet to agree its 2018/19 budget. The IJB initially forecast that its expenditure would will exceed the offered funding by £12.2m. The plan originally agreed by the IJB identified savings of £10.6m, leaving a £1.6m budget gap, however, this position worsened as described above.</p> <p>If budgets and savings plans are not agreed on a timely basis, there is a risk that the IJB may damage relations with partner bodies and may not be able to deliver services on a sustainable and planned basis.</p> | <ul style="list-style-type: none"> Assess the adequacy of budget monitoring and agreement of funding for 2018/19 as this progress. Assessing progress of the IJB's budget setting process going into 2019/20. Review progress in recruiting a full time Chief Finance Officer for the IJB. Attend Audit Committee to assess the effectiveness of temporary arrangements. | <p>Budget monitoring arrangements improved over the year and enabled members to assess financial performance more effectively (paragraphs 28 to 31).</p> <p>A balanced budget was agreed in 2019/20 (paragraph 42).</p> <p>A full time Chief Finance Officer was appointed from 1 July 2019 (refer paragraph 36).</p> <p>Some aspects of the Audit Committee's governance arrangements need to be improved (refer paragraph 63).</p> |
| <p>Financial capacity</p> <p>The IJB's Chief Finance Officer (CFO) resigned at the beginning of July 2018, and an external agency worker was brought in to cover the post but subsequently resigned at the end of November 2018. Since then, Argyll and Bute Council's Section 95 Officer has fulfilled the role, on an interim basis, in addition to their council duties. There have been some delays in the ensuing recruitment process so that this arrangement is likely to continue into June 2019.</p> <p>Given that potential candidates may be required to give several months' notice to their current employers, there is a risk that;</p> | <ul style="list-style-type: none"> Review of Finance papers presented to Audit Committee and the Board to conclude on their adequacy in enabling members to get a grip on the financial position of the IJB. We will work with the CFO (or equivalent) to understand the challenges in, and progress with, producing a timely and materially correct set of accounts supported by an adequate audit trail and working papers. | <p>There has been a marked improvement in the range and quality of papers presented to the Board and Audit Committee since January 2019. These include more detailed analysis of expenditure and savings and provide members with a clear picture on the financial position and the risk to achieving financial balance (paragraphs 26 and 27).</p> <p>The 2018/19 unaudited set of accounts submitted to audit were of a good standard and subsequent audit work found them to be materially correct (paragraph 15).</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|---|
| <ul style="list-style-type: none"> a permanent CFO may not be in post for several months, which could disrupt routine financial monitoring and reporting to the Board. a lack of financial capacity within the IJB may impact on the quality and timeliness of financial statements and working papers, and lead to misstatements in the annual accounts. | | |
| <p>5. Workforce Planning</p> <p>The IJB has developed a workforce plan for adult services, however, an organisation wide workforce plan is not yet in place.</p> <p>Without such a workforce plan there is a risk that the IJB will have difficulty in identifying and addressing future staffing and skills needs, which may impact on the achievement of its key objectives.</p> | <ul style="list-style-type: none"> Assess progress in developing an IJB wide workforce plan. | <p>Progress has been made in developing an overarching workforce plan which is due to go to the Board for approval in November 2019. However, management recognise that the workforce plan will need to be aligned to service and financial plans (refer paragraphs 76 and 77).</p> |

Appendix 3

Summary of national performance reports 2018/19

| | |  2018/19 Reports | |
|---|---|--|---|
| Local government in Scotland: Challenges and performance 2018 |  | Apr | |
| Councils' use of arm's-length organisations |  | May |  Scottish Fire and Rescue Service: an update |
| Scotland's colleges 2018 |  | Jun | |
| | | Jul |  The National Fraud Initiative in Scotland 2016/17 |
| Forth Replacement Crossing |  | Aug |  Major project and procurement lessons |
| Children and young people's mental health |  | Sept |  Superfast broadband for Scotland: further progress update |
| NHS in Scotland 2018 |  | Oct | |
| Health and social care integration: update on progress |  | Nov |  Local government in Scotland: Financial overview 2017/18 |
| | | Dec | |
| | | Jan | |
| | | Feb | |
| | | Mar |  Local government in Scotland: Challenges and performance 2019 |

Reports relevant to Integration Joint Boards

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Children and young people's mental health](#) – September 2018

[NHS in Scotland 2018](#) – October 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Argyll and Bute Integration Joint Board

2018/19 Annual Audit Report

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