

North Ayrshire Integration Joint Board

Report to the Members of the IJB and the Controller of Audit
on the 2018/19 audit

Issued 6 August 2019 for the meeting on 29 August 2019

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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 Members of North Ayrshire Integration Joint Board ('the IJB' 'the Board') for the 2019 audit. The scope of our audit was set out within our planning report presented to the Performance and Audit Committee ('the Committee') in March 2019.

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 (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed we expect to issue an unmodified audit opinion.

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 Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8.

No misstatements in excess of our reporting threshold of £187k or disclosure deficiencies have been identified up to the date of this report.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. This incorporated the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Our detailed interim report, presented to the Board in June 2019, set out our findings and conclusions on each dimension. We have updated this for any significant changes since that report and our overall conclusion on each dimension is summarised on pages 16-17.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial sustainability

The IJB achieved short-term financial balance in 2018/19 and a balanced budget has been set for 2019/20; however, this includes significant efficiencies and service transformation programmes to be delivered.

It is positive that the IJB has started to repay the debt due to North Ayrshire Council arising from previous year overspends, albeit less than initially planned, with the remainder being repaid in future years.

In the medium term, the IJB is faced with a challenging financial position as the current level of service provision is not financially sustainable. In response to this, the Medium Term Financial Plan (MTFP) is due to be updated in 2019/20, with the Transformation Board driving the delivery of transformational change.

Financial management

Improvements have been made to the quality and frequency of financial monitoring reports and there is now an effective integrated budget monitoring arrangement in place. We have also noted that the financial management arrangements have strengthened during the year, including the reliability and accuracy of financial projections and financial processes.

There were variations between the financial projections and the year-end position resulting in less being repaid to North Ayrshire Council than was planned. The IJB has identified discrete areas of focus to improve financial projections in future years to ensure this situation does not re-cur.

Governance and transparency

The IJB has a good attitude to openness and transparency and there is a supportive culture that underpins this.

It is positive to note that the Board, along with its NHS and Council partners, are reviewing and updating the governance arrangements for the IJBs to take cognisance of the experience from early integration.

Value for money

The IJB has a performance management framework in place, with performance regularly considered by management, and the Performance and Audit Committee. It clearly reports on its contribution towards the national outcomes through its quarterly and annual performance reports.

While there are some areas reporting a decline in performance, the Partnership Performance Reports set out how the IJB intends to address each area of under performance. In particular, there is a focus on trying to shift the balance of care from a hospital to a community setting.

Our conclusions are included on pages 8 to 17 of this report and also included in our interim report to the Board in June 2019.

We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

Our aim is to add value to the IJB by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. 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.

This is provided throughout this report and our separate interim report. In particular, our separate "Sector Developments" report, presented along with our interim report shared our research, informed perspective and best practice from our work across the wider public sector that are specifically relevant to the IJB.

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:

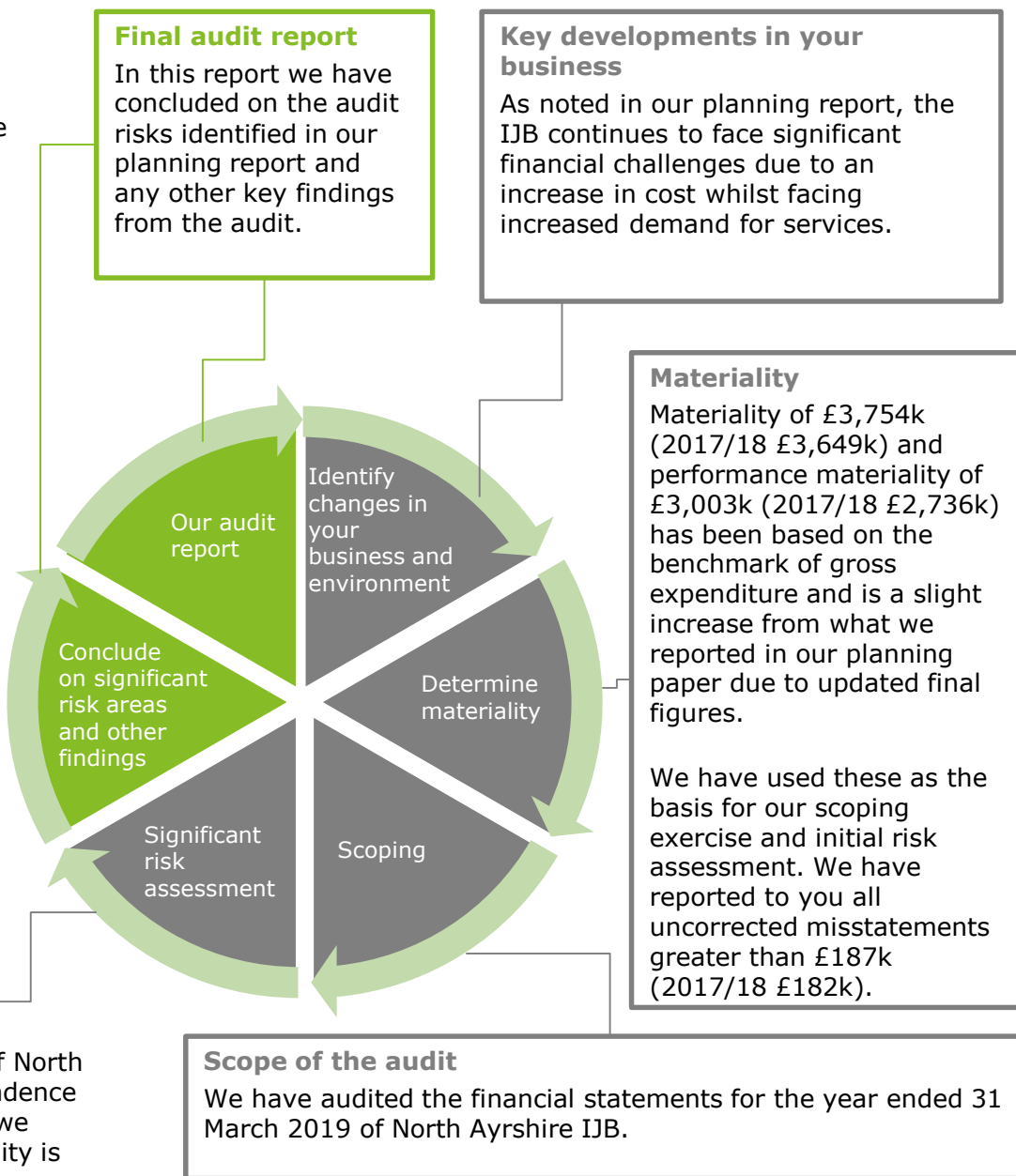
- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Significant risks

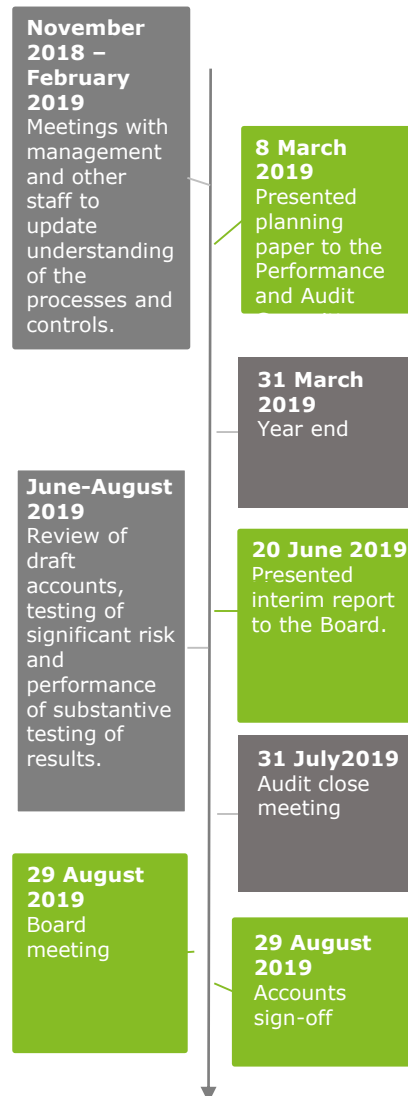
Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of North 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 2018/19



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	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

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 North Ayrshire Council (NAC) and NHS Ayrshire and Arran (NHS A&A). The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from North Ayrshire Council and NHS Ayrshire & Arran.



Key judgements and our challenge of them

Given the year end deficit projected by the IJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.



Deloitte response

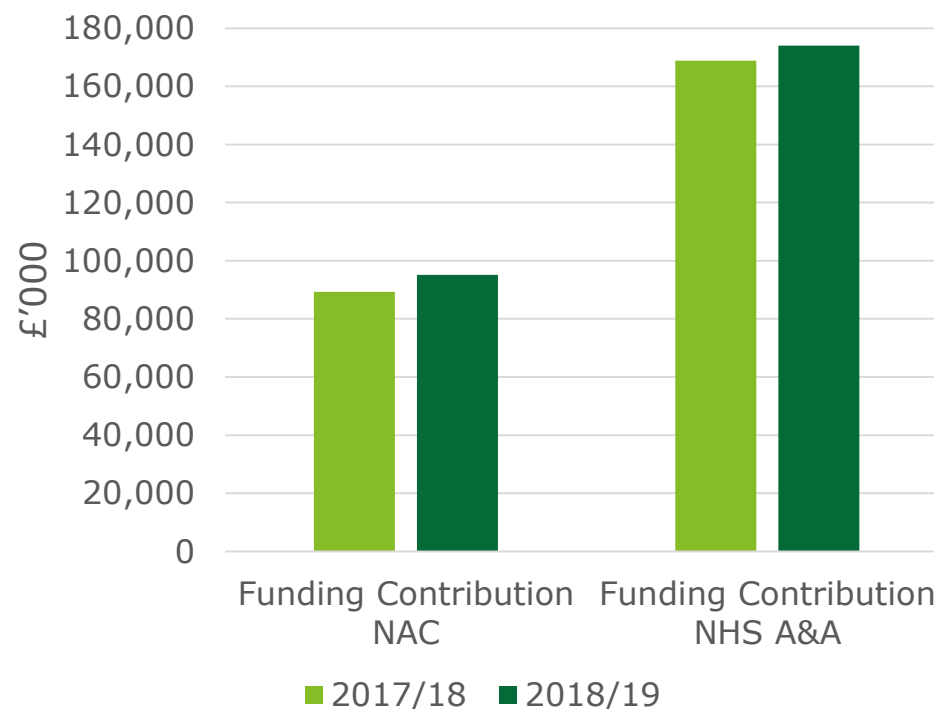
We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any reductions have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2019 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2018/19 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.

Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

Funding Analysis



Significant risks (continued)

Risk 2 - Management override of controls

Risk identified

In accordance with ISA 240 (UK) 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.



Key judgements

The key judgments in the financial statements are those which we have selected to be the significant audit risks around the completeness and accuracy of income (page 9). This is inherently the area in which management has the potential to use their judgement to influence the financial statements.



Deloitte response

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

- The Board's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- 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 and unusual 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 performed design and implementation testing of the controls in place for journal approval.

We have used data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted based upon the work performed thus far.

Accounting estimates

We reviewed the financial statements for accounting estimates which could include biases that could result in material misstatements due to fraud. No accounting estimates have been recognised in the financial statements.

We considered any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), focusing on the areas of greatest judgement and value.

No issues have been identified from our testing.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed to date.

We agree with management's position that the new accounting standards do not have a material impact for the Board.

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.



Our opinion on the financial statements

Based on our audit work completed to date, we anticipate issuing an unmodified opinion on the financial statements.



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.

Whilst the IJB is faced with financial sustainability issues (discussed on page 16), the Code of Practice on Local Authority Accounting requires authorities to prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be required.



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 pages 12-13.



Your annual report

We are required to provide an opinion on the auditable parts of 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. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focusses on the strategic planning context.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Our review identified a number of areas of good practice with the inclusion of graphics and tables to aid the user's understanding of the annual report and accounts.</p> <p>Our review identified a number of areas where the annual accounts needed revising in order to comply with statutory guidance and to ensure that they were fair, balanced and understandable. We are pleased to note that these changes have been made.</p> <p>We have made a number of recommendations for changes to the annual accounts in line with good practice. We have included elements of good practice for your consideration at page 13.</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 and Chief Finance Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands and exit packages 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 accounts direction. No exceptions noted.

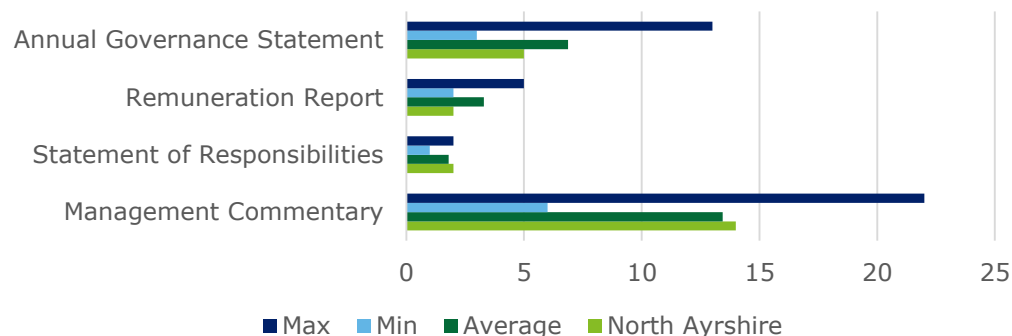
Your annual report (continued)

Good practice note – improving quality of annual accounts

Audit Scotland have issued a series of Good Practice notes to highlight where Annual Reports can be improved. One specifically directed at Integration Joint Boards was published in April 2018. We have highlighted below some of the key messages from this guidance note and pleased to note that a number of areas have been considered in drafting the 2018/19 annual accounts and would encourage the Board to consider further areas of good practice in future annual accounts.

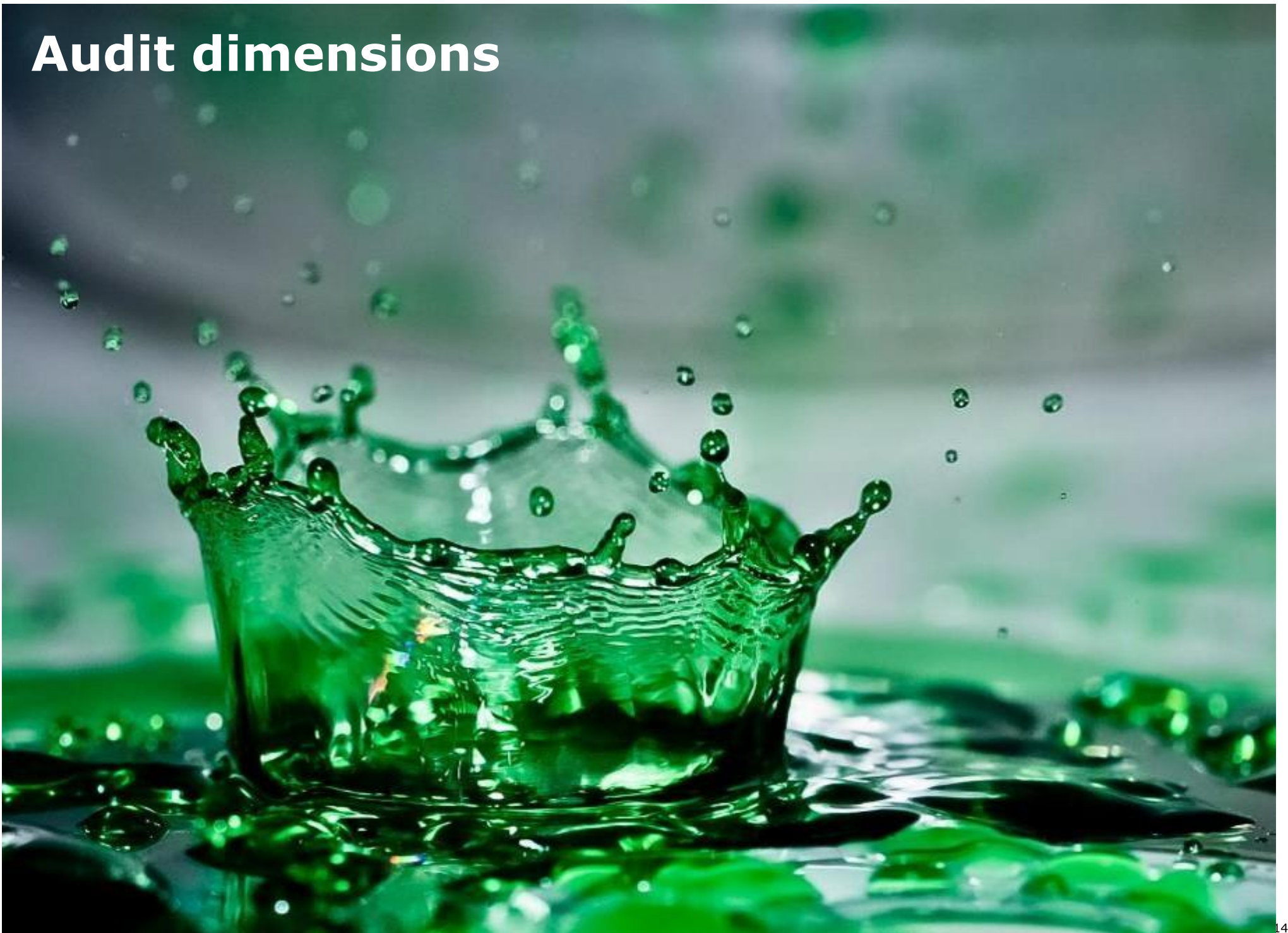
We have also benchmarked the length of the draft 2018/19 annual report against other IJBs. North Ayrshire Council sits around the average length, however, minor improvements could be made in the content including the removal of all zero balances and the inclusion of an action plan outlining how the prior year's significant risks were addressed during the year.

Length of narrative benchmarking



Key messages		
A single story	<ul style="list-style-type: none"> The narrative in the management commentary and annual governance statement should be consistent with the accounting information in the financial statements. Significant points in the financial statements should be explained in the management commentary. 	G
How funding was used	<ul style="list-style-type: none"> The management commentary should give a clear and balanced account of how funding was used. Explanations of the IJB's business model should be provided. The salient features of the IJB's performance and position should be explained in a balanced way. 	G
What worries board members	<ul style="list-style-type: none"> The risks and uncertainties described in the management commentary should genuinely be the principal risks and uncertainties that the board members are concerned about. The descriptions should be sufficiently specific that users can understand why they are important to the board members. The management commentary and annual governance statement should describe the mitigating actions to manage the impact of the principal risks and uncertainties and significant governance weaknesses. The links to accounting estimates and judgements should be clear. 	G
Consistency	<ul style="list-style-type: none"> Highlighted or adjusted figures, key performance indicators and other measures referred to in the management commentary should be clearly reconciled to the relevant amounts in the financial statements. Any adjustments to the figures in the management commentary should be clearly explained, together with the reasons why they are being made. 	G
Cut the clutter	<ul style="list-style-type: none"> Important messages, policies and transactions should be highlighted and supported with relevant context and not obscured by immaterial detail. Cross-referencing and signposting should be used effectively, and repetition avoided. 	G
Summarise	<ul style="list-style-type: none"> Items should be reported at an appropriate level of aggregation. Tables should be supported by, and consistent with, the accompanying narrative. 	G
Explain change	<ul style="list-style-type: none"> Significant changes from the prior period, whether matters of policy or presentation, should be properly explained 	G
True and fair	<ul style="list-style-type: none"> The spirit as well as the letter of proper accounting practices should be followed. 	G

Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our conclusions on our audit work covering the following area, with our detailed findings and conclusions reported to the Board in June 2019 as part of our [Interim Report](#). 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

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

- EU Withdrawal
- Changing landscape for public financial management
- Dependency on key suppliers
- Openness and transparency

- Our conclusions on the above were reported in our [Interim Report](#) to the Board in June.

Audit dimensions (continued)

Financial sustainability and financial management

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

Key facts:

2018/19 financial position

- £945k underspend against budget after £1,486k being transferred back from North Ayrshire Council which was held on the IJB's behalf.
- £668k repayment to North Ayrshire Council during 2018/19 with outstanding debt of £5,139k as at 31 March 2019.

2019/20 financial position

- £6,134k savings required.

Overall conclusions

The IJB achieved short-term financial balance in 2018/19 and commenced repayment of the historic debt outstanding to North Ayrshire Council. A balanced budget has been set for 2019/20; however, this includes significant efficiencies and service transformation programmes that need to be achieved in order for a balanced budget to be maintained.

In the medium term, the IJB is faced with an extremely challenging financial position as the current level of service provision is not financially sustainable. The Transformation Board has been established to drive the delivery of transformational change at the required scale and pace to set the direction for the Strategic Plan 2018-21. A Medium Term Financial Plan is in place covering the period 2017/18 to 2019/20, which sets out the key demand pressures and funding assumptions over the five year period. This is due to be updated in 2019/20 and should take account of issues set out in the Scottish Government's five-year Medium Term Financial Strategy, its Health and Social Care Medium Term Financial Framework and the work of the Transformation Board.

As part of the 2019/20 transformation programme, the IJB are launching a "Thinking Different, Doing Better" programme aimed at educating staff and the wider public on the role of the partnership and of the case for change. This is a significant commitment but should be highlighted as a good practice example of engaging with key stakeholders to inform future decision making and drive towards shifting the balance of care from a hospital to a community setting.

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

Key facts:

2018/19 budget

- Final budgeted expenditure of £267,909k, against actual expenditure of £268,211k.
- Savings of £4,043k achieved, against a savings requirement of £6,615k.
- Overspends reported during the year.
- Regular reporting to senior management and board members.

Overall conclusions

The IJB achieved an underspend of £945k in 2018/19, after £1,486k is transferred back from North Ayrshire Council which was held on behalf of the IJB. The IJB repaid a sum of £668k towards the outstanding debt to the Council. It was envisaged that during the year the first instalment of the repayment would be £1,500k; however, a surplus of that value was not generated due to variations between projections and actual costs at the financial year-end. The IJB has identified discrete areas of focus to improve financial projections in future years to ensure this situation does not re-cur.

The final outturn position is a significant improvement on the overspend position that was expected earlier in the year, particularly given historical overspends in previous years. Improvements have been made to the quality and frequency of financial monitoring reports and there is now an effective integrated budget monitoring arrangement in place. The appointment of the Chief Finance and Transformation Officer has been pivotal in the significant improvement of the IJB's financial position.

It is positive to note that work is ongoing nationally, with Ayrshire and Arran acting as the test area for further work to be on Directions/ Set Aside resources as part of the national Review of Progress of Integration of Health and Social Care.

Audit dimensions (continued)

Governance and transparency and value for money

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.

Key facts:

- **Strategic Plan 2018-2021 approved in April 2018.**

Overall conclusions

In general, the IJB has a good attitude to openness and transparency and there is a supportive culture that underpins this. This could be further enhanced by publishing the papers and minutes of the Performance and Audit Committee online.

There are a number of key governing documents which have not been reviewed or refreshed by the Board since 2015. A schedule of key governance documents including review timescales and responsible officers were submitted to the Performance and Audit committee in June 2019. Thereafter progress with document reviews will be monitored through the Performance and Audit Committee.

It is positive to note that the Board, along with its NHS and Council partners, are reviewing and updating the governance arrangements for the IJBs to take cognisance of the experience from early integration.

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

Key facts:

- **Between April 2018 and December 2018 overall performance has declined. There has been an increase in the number of 'red' indicators reported from 5 to 10.**

Overall conclusions

Best Value duties apply to accountable officers across the public sector. One of the key principles of the IJB integration scheme is making best use of public money by providing services that are efficient, effective and sustainable, and best value is a visible theme throughout IJB reports. One mechanism for the IJB ensuring Best Value is through the preparation of the annual performance report; the report assesses performance in relation to best value.

The IJB has a performance management framework in place, with performance regularly considered by management and the Performance and Audit Committee. It clearly reports on its contribution towards the national outcomes through its quarterly and annual performance reports.

While there is a decline in performance in some areas, the Partnership Performance Reports set out how the IJB intends to address each area of underperformance. In particular, there is a focus on trying to shift the balance of care from a hospital to a community setting.

The budget also recognises the need to link expenditure to outcomes, but there is still a need to improve the links between budget and outcomes.

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) 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 Board.

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.

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 again in this report.

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.

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



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

6 August 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

No other corrected misstatements have been identified from our audit work performed to date.

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work to date.

Action plan

Recommendations for improvement

We have not made any recommendations for improvement arising from our financial statements audit. Our interim report submitted to the Board in June 2019 reported our detailed recommendations arising from our work on the wider audit dimensions. In this report, we made seven recommendations, as follows:

Wider audit dimension	Recommendations made
Financial sustainability	3
Financial management	1
Governance and transparency	3

We will follow up these recommendations and report to the Committee on progress as part of our 2019/20 audit.

In our interim report, we followed up on recommendations for improvement made in 2017/18. A summary of progress against 2017/18 actions has been included below. Of the three recommendations outstanding, all have an updated recommendation included above. Consequently, there are seven total recommendations which we will follow up in our 2019/20 audit.

Area	Recommendations made	Recommendations implemented
Financial statements	-	-
Financial sustainability	3	1
Financial management	1	1
Governance and transparency	3	2

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.

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 completeness and accuracy of income and management override of controls as key audit risks 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 Performance and Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



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 2018/19, in line with the fee range provided by Audit Scotland, is £25,000 as broken down below:

	£
Auditor remuneration	17,200
Audit Scotland fixed charges:	
Pooled costs	1,670
Contribution to PABV	5,050
Audit support costs	1,080
Total agreed fee	25,000

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.





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