



South Ayrshire Integration Joint Board

Report to the Performance and Audit Committee, Members of
the IJB and the Controller of Audit on the 2019/20 audit

Issued on 27 August 2020 for the meetings on 8 and 16 September 2020

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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 Performance and Audit Committee (“the Committee”) of South Ayrshire Integration Joint Board (“the IJB” “the Board”) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the IJB in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

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 Accountable Officers’ 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

We have issued 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 10.

No uncorrected misstatements in excess of our reporting threshold of £184k or disclosure deficiencies have been identified up to the date of this report.

Status of the financial statements audit

Our audit is complete.

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

Due to the impact of the COVID-19 pandemic and cancellation of Committee meetings up to the end of June, we did not prepare a separate interim report as planned and have instead reported our detailed findings and conclusions within this report.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on IJB at this stage.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial Management

The IJB has effective financial planning and management arrangements in place, with improvements noted during 2019/20. While variances have arisen during the year, the IJB has effectively managed the position to ensure expenditure remains within the funding available. The re-profiling of the debt due to South Ayrshire Council has also improved the year-end position. The appointment of a full time CFO is also a positive step. Further work is still required to align the Strategic Plan to the Medium Term Financial Strategy to demonstrate that resources are being directed in line with priorities.

The IJB continues to face challenges in achieving its planned savings. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required. Progress against these targets should then be clearly reported as part of the quarterly monitoring reports.

Financial sustainability

The IJB achieved short term financial balance in 2019/20 and has set a balanced budget for the 2020/21. However, it is still faced with significant financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

It is positive to note that a Medium Term Financial Strategy (MTFS) has been developed and work is progressing with transformation plans to address the significant funding challenges that the IJB faces. It is critical that detailed plans are developed and implemented at pace to ensure that the projected efficiencies are achieved. The IJB must ensure that sufficient resources are in place to manage this plan, and have a clear benefits tracker in place to demonstrate that the transformation initiatives are delivering the outcomes planned. Given the risks associated with COVID-19, these will need to be taken into account in the further development of these plans.

Governance and Transparency

We are pleased to note that there is now a full SMT in place to better support at an operational level. However, leadership at the strategic level is currently not sufficiently focused. Further work is required to ensure that the partnerships is appropriately resourced and focusing on the areas of most critical concern.

Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic. It is important that areas identified from the review of the Integration Scheme are progressed during 2020/21.

In general, the IJB continues to be open and transparent in relation to the decisions it makes. Some specific issues in relation to public consultation and adherence to processes have arisen during the year. While it is positive to note that the IJB is taking the opportunity to review its arrangements to ensure that similar legal issues do not recur in the future, this needs to be progressed as a matter of priority, with lessons learned reported back to the IJB.

Value for money

The IJB continues to have an embedded performance management culture. Performance data has shown little change, with overall performance remaining largely consistent with previous years. Prior to the COVID-19 pandemic, while actions have been identified to change models of service delivery and improve outcomes, the impact is not yet evidenced in the performance data. The pace and scale of transformation needs to increase to address the challenges faced. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Value for money (continued)

While actions are progressing to address the significant concerns raised as part of the Significant Case Review, the progress to date is not in line with expectation. This needs to be taken forward by the strategic leadership team, providing appropriate resources and support to ensure that the actions can progress and ensure the actions implemented are sustainable in the longer term.

Our detailed findings are included on pages 18 to 34 of this report. We will consider progress with the agreed actions as part of the 2020/21 audit.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the IJB as an Appendix on pages 37 and 38 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 40 to 43 of this report which includes a follow up of progress on previous year's agreed actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

Added value

Our aim is to add value to the Board 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 Board promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included conclusions on the Board's Best Value arrangements, which are discussed on page 34.

In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

Pat Kenny
Audit Director








Financial statements audit



Quality indicators

Impact on the execution of our audit

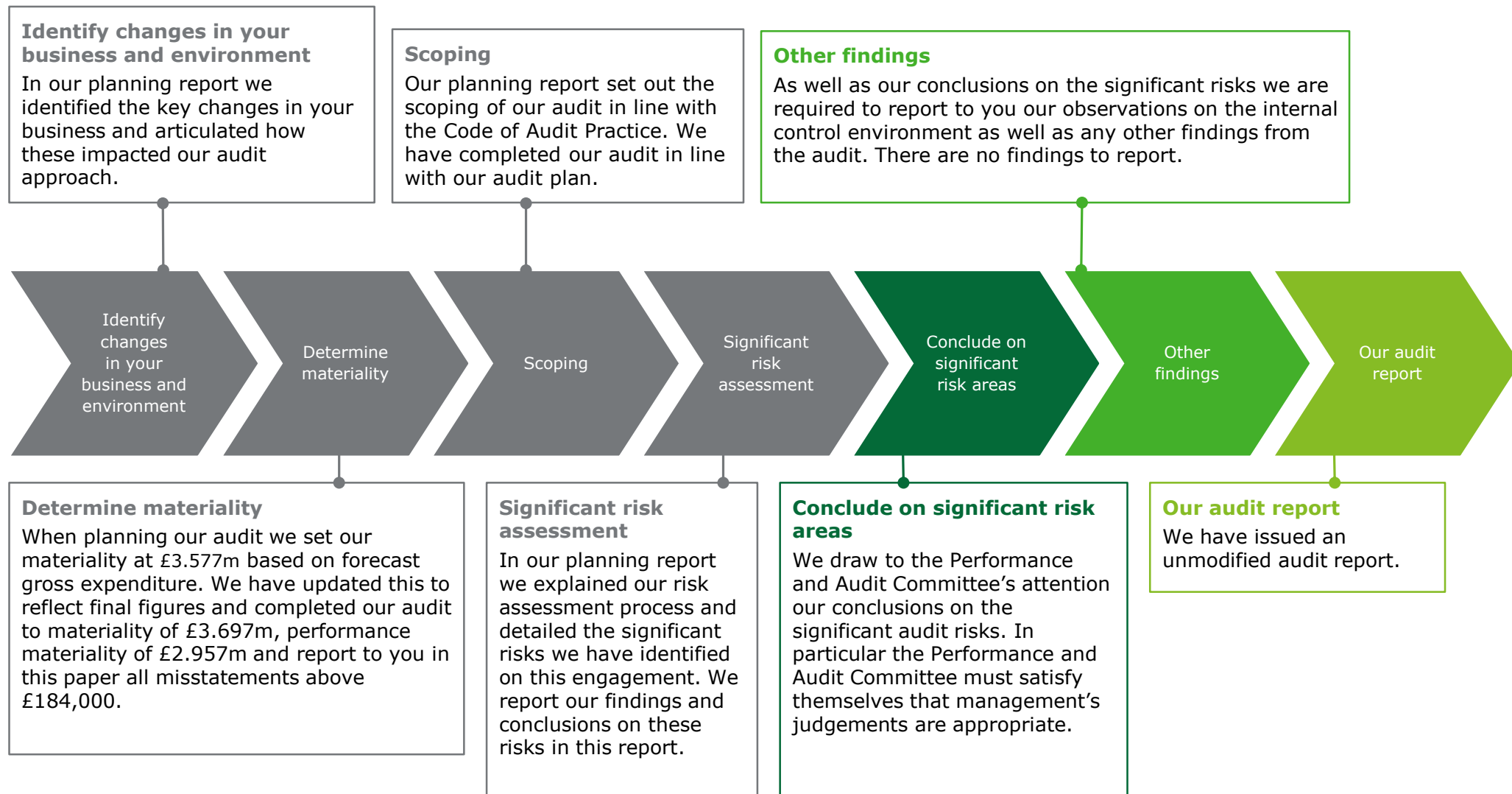
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements		There are no significant accounting judgements included in the IJB accounts.
Adherence to deliverables timetable		The audit of the annual accounts progressed largely in line with the original timescale. The receipt of the financial statements and notes to the accounts were provided on 10 June 2020 before our start on 15 June. However, the first draft of the full annual report and accounts was not received until 22 June (7 days after the due date). We were advised that this was due to competing priorities with COVID-19 mobilisation returns due around the same time, although this did not create significant issues.
Access to finance team		Deloitte and South Ayrshire IJB have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. Improvements can be made to make it clear how the final management accounts reconcile to the draft Comprehensive Income and Expenditure Statement (CIES) position.
Quality of draft financial statements		A full draft of the annual report and accounts was received for audit on 22 June 2020. We note improvements in the front end from last year with more use of graphics to make them more accessible. However, a proof read before sharing with us would have been useful given the number of grammatical and spelling errors.
Response to control deficiencies identified		No control deficiencies were identified.
Volume and magnitude of identified errors		We identified a number of errors in the remuneration report and balance sheet.







 Lagging  Developing  Mature

Our audit explained

We tailor our audit to your business and your strategy



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	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

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 South Ayrshire Council (SAC) 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 the Health Board and the Council.



Key judgements and our challenge of them

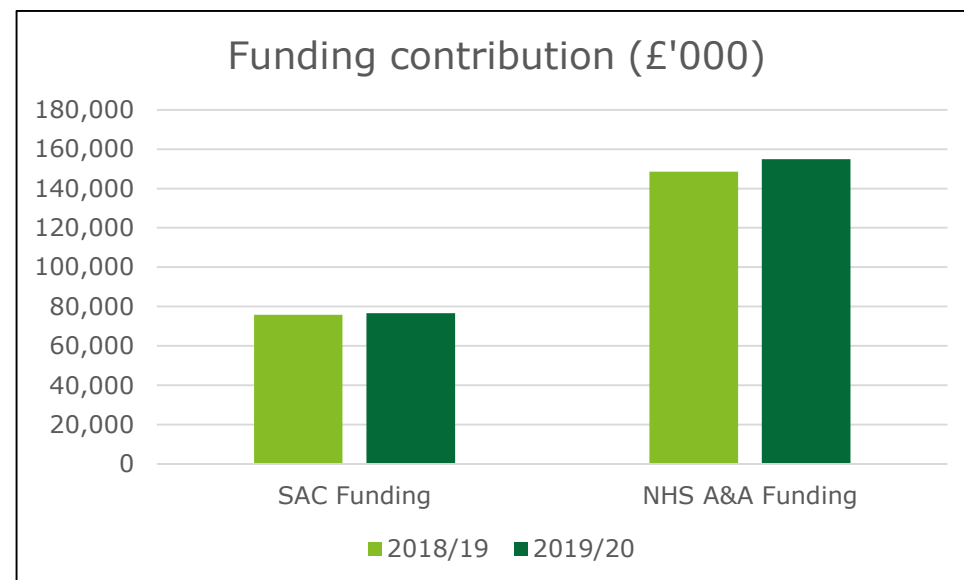
Given the year-end deficit projected by the IJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.



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 amendments have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2020 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2019/20 have been reviewed on a regular basis; and
- assessed the design and implementation of the 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.

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 judgement in the financial statements is that which we have selected to be the significant audit risk around the completeness and accuracy of income (page 11). 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 the review of management accounts.

We have used Spotlight 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.

Accounting estimates and judgements

We reviewed the financial statements for accounting estimates and judgements which could include biases that could result in material misstatements due to fraud.

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.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The IJB accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code.

Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation and the need to review medium to long term plans.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Coronavirus (Covid-19) outbreak

Impact on the annual report and audit

The current crisis is unprecedented in recent times. The NHS and social care sectors are most directly exposed to the practical challenges and tragedies of the pandemic, and are undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Performance and Audit Committees need to consider. We summarise below the key impacts on reporting and audit:

Impact on Board annual report and financial statements

The Board need to consider the impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures;
- Change in the funding regime for 20/21;
- Onerous contracts and any potential provisions;
- Going concern; and
- Events after the end of the reporting period.

Impact on our audit

Covid-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Board staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Timetable of the audit has been shorter given initial accounts delay and Board date.
- Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with the Board, we will continue to consider any developments for potential impact up to the finalisation of our work on 16 September 2020.

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

We have issued an unmodified audit opinion.



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.

While the Board is faced with financial sustainability issues (as discussed on page 23), it achieved a balanced budget in 2019/20 and has agreed a balance budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



Emphasis of matter and other matter paragraphs

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

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



Other reporting responsibilities

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

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 16.

Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	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 focuses 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>Following minor amendments made during the course of the audit, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading. This includes improvements to the management commentary to include more graphics to make it accessible.</p>
Remuneration Report	The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages and have identified a few minor disclosure errors, which have been corrected. Further to the corrections we can confirm that the remuneration report disclosures have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board 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 regulations. We have required management to make a few minor changes to add in narrative on the previous year's action plan and how these have been addressed, but are satisfied following these changes that the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.

Audit dimensions and best value



Audit dimensions

Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This section of our report sets out our conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers our specific audit requirements on relevant risks identified by Audit Scotland.



Financial management

Financial sustainability

Value for money

Governance and transparency

Financial management

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



Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in our audit plan:

"Whilst reporting an improved position in comparison with 2018/19, an overspend is still being projected for the current year. There therefore remains a risk that the budget setting and monitoring arrangements are not sufficiently robust to ensure that the IJB operates within the delegated budgets."

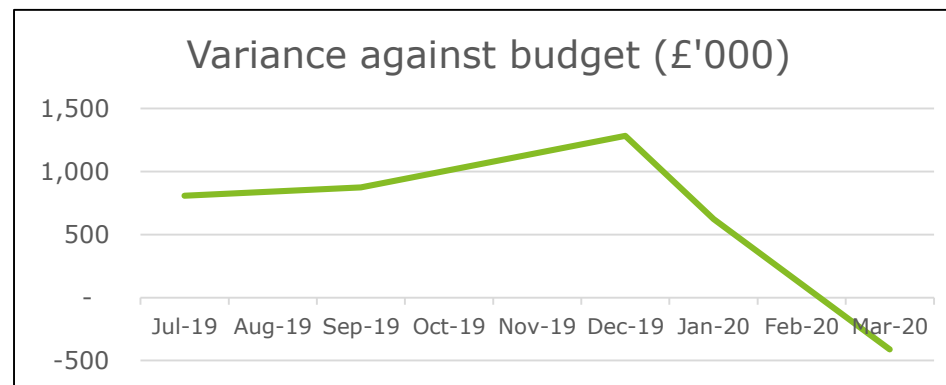
Budget monitoring

2018/19 Conclusion: The IJB achieved a balanced budget. However, this was only achieved after mediation which resulted in interim funding of £3.277m being provided by South Ayrshire Council ("the Council") which will need to be repaid in future years.

2019/20 Update: The IJB reported overspends throughout the year, with this peaking at a projected overspend of £1.289m in December 2019. The most significant variance was in relation to outwith authority residential placements which were forecasting to overspend by £0.884m as at the end of December 2019.

The final outturn reported an underspend of £0.411m, which was a significant improvement from the position in December. This was partly achieved as a result of South Ayrshire Council agreeing to reduce the debt repayment in respect of previous years to £0.291m compared to £0.819m included in the original budget and re-profile this over future years.

In addition, progress has been made during the year focusing on early intervention and prevention and transferring care to community settings. The change in focus of children's service to early intervention approaches led to a reduction in people placed in outwith authority placements towards the end of the year.



2019/20 Conclusion: The achievement of an underspend position at the end of March 2020 has demonstrated the success of the close monitoring and management of the financial position during the year and associated remedial action. While variances have arisen during the year, the IJB has effectively managed the position to ensure expenditure remains within the funding available. This is a significant improvement from the 2018/19 position.

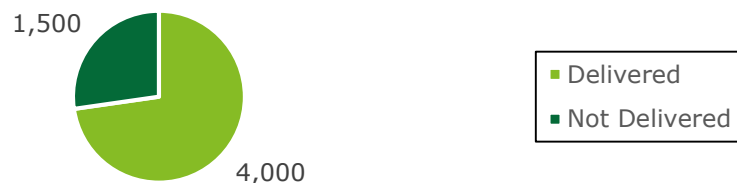
Financial management (continued)

Savings Plans

2018/19 Conclusion: Savings of £2,901k were achieved against budgeted savings of £4,683k. This resulted in the need for additional interim funding from the council to achieve a balanced budget.

2019/20 Update: Savings of £4m were delivered in the year, against an approved savings plan of £5.5m. £1.2m of the unachieved savings have been carried forward as part of the 2020/21 budget.

Savings at 31 March 2020 (£'000)



While there is reference to transformation and efficiencies savings within the quarterly budget monitoring reports, there is scope to improve the clarity of the progress that is being made in achieving savings against plan. As future budgets become more challenging with increased need for transformation, we recommend that the monitoring reports clearly set out the progress being made against approved savings. A risk rating could be applied to inform IJB members of any specific areas of concern.

2019/20 Conclusion: the IJB continues to face challenges in achieving its planned savings. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required. Progress against these targets should then be clearly reported as part of the quarterly monitoring reports.

Financial reporting

2018/19 Conclusion: We noted improvements to the quality of the financial monitoring reports in 2018/19, specifically including the Lead Partnership arrangements and set aside budgets. However, we concluded that, during 2018/19, the IJB did not operate as a “fully integrated budget”. This improved during the 2019/20 budget process in February/March 2019 with the IJB and both partners involved throughout. We recommended that, to be fully effective, the IJB needs to adopt an integrated approach to budgeting, which allows IJB members to make decisions in relation to the total funding allocated to meet the objectives of its Strategic Plan. We also recommended a need for improved links between the budget and outcomes.

2019/20 Update: From our review of monitoring reports during 2019/20, it is clear that in overall terms, the reports to management and the Board are consistent and transparent, and are now prepared on a fully integrated basis.

Further work is still required to align the Strategic Plan to the Medium Term Financial Strategy to demonstrate that resources are being directed in line with priorities.

2019/20 Conclusion: The IJB has improved its financial planning and management arrangements in place. Further work is still required to align the Strategic Plan to the Medium Term Financial Strategy.

Financial management (continued)

Financial capacity

2018/19 Conclusion: The Chief Finance Officer (CFO) also had the role of Assistant Director of Finance at NHS Ayrshire & Arran and received support from a member of the Council's finance team. Given the dual role, we highlighted there was insufficient capacity to fulfil the needs of the IJB in the absence of appropriate support arrangements.

2019/20 Update: In recognition of the increased workload associated with the IJB, a full time permanent CFO was appointed in February 2020 and continues to be supported by a member of the Council's finance team.

2019/20 Conclusion: the appointment on the permanent CFO for the IJB is a significant improvement in the year. We are therefore satisfied that the finance team capacity is sufficient to support the IJB's financial management arrangements.

Deloitte view – financial management

The IJB has effective financial planning and management arrangements in place, with improvements noted during 2019/20. The achievement of an underspend position at the end of March 2020 has demonstrated the success of the close monitoring and management of the financial position during the year. While variances have arisen during the year, the IJB has effectively managed the position to ensure expenditure remains within the funding available. The re-profiling of the debt due to South Ayrshire Council has also improved the year-end position. The appointment of a full-time CFO is also a positive step. Further work is still required to explicitly link budgets with outcomes.

The IJB continues to face challenges in achieving its planned savings. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required. Progress against these targets should then be clearly reported as part of the quarterly monitoring reports.

Internal audit

South Ayrshire Council's Chief Internal Auditor provides the Internal Audit function for South Ayrshire IJB. The NHS Ayrshire and Arran Health Board also share relevant work via their Internal Auditor, Grant Thornton.

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

Standards of conduct for prevention and detection of fraud and error

We have reviewed the IJB's arrangements for the prevention and detection of fraud and irregularities. Overall we found the IJB's arrangements to be operating effectively.

Financial sustainability

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



Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in our audit plan:

“There is a risk that that the plans for efficiency savings, achieving financial balance and service redesign are not robust enough to allow the benefits to be realised. The latest financial monitoring reports for 2019/20 are projecting an overspend of circa £0.875m. There is therefore also an increased risk in achieving short term financial balance.”

Budget setting

2018/19 Conclusion: a 2019/20 balanced budget was set which included high risk savings of £7.475m, therefore presenting a significant risk of not achieving short-term financial balance in 2019/20.

2019/20 Update: a 2020/21 balanced budget was approved by the Board on 25 March 2020. The budget included total pressures of £7.007m for pay awards, the living wage, demographic changes and transformation. The effect of additional demand pressures particularly within older people services has resulted in increasing the efficiencies required to balance the budget. Additional funding of £3.815m, being the NHS and Council passing on the increases from the Scottish Government, was agreed, resulting in an initial budget gap of £3.191m.

Savings plans were approved as part of the budget setting process to address this gap. As recommended on page 20, a risk rating could be applied to the monitoring of savings plans to inform IJB members of any specific areas of concern.

Impact of COVID-19

In setting the budget, the IJB recognised that current developments in relation to COVID-19 will incur significant additional costs, which are expected to be ultimately covered by the government. It also recognised the risks to achieving the proposals set out in the budget as a result of operations focusing on mobilisation plans for COVID-19.

The HSCP developed a mobilisation plan detailing the additional activities undertaken to support its response to COVID-19, alongside the estimated financial impact. This is being monitored and updated on a regular basis, with the estimated costs associated with the HSCPs submitted to the Scottish Government. The most recent submission outlines an estimated cost of £5.7m for the duration of 2020/21. There is an expectation from the HSCP that the Scottish Government will provide additional funding to IJBs to support additional costs aligned to mobilisation plans. The full funding allocation has not yet been confirmed, and the interim allocation to address immediate social care pressures, is not sufficient to fund all pressures.

Financial sustainability (continued)

Budget setting (continued)

2019/20 Conclusion: A balanced budget has been set for 2020/21, which incorporates savings targets in line with savings achieved in previous years. We are therefore satisfied that a robust budget setting process is in place. However, the impact of COVID-19 remains a significant risk which could impact on the IJB achieving short term financial balance.

Reserves

2018/19 Conclusion: the IJB Reserve Strategy approved in 2015 approved a reserve level of between 2% and 4% of net expenditure. Given the current financial position and the ongoing requirements to deliver significant savings, this optimum reserve balance was considered aspirational.

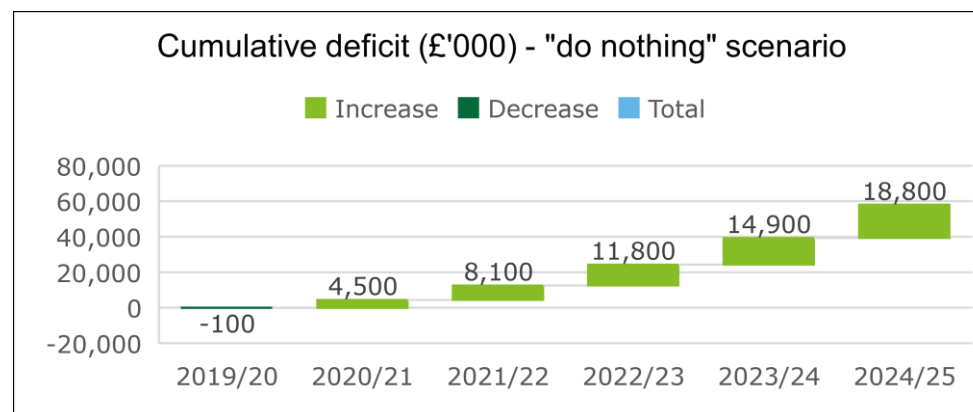
2019/20 Update: No change has been made to the IJB Reserve Strategy in the year. At 31 March 2020, the IJB ended the year with a reserves balance of £411,000 being the underspend from the year which have been carried forward to 2020/21 for specific projects.

2019/20 Conclusion: It is best practice to periodically review the Reserve Strategy to ensure it remains valid and fit for purpose. Now that the IJB has been in operation for a number of years, the Reserves Strategy should be reviewed, in particular ensuring there is a clear policy for planning for adequate reserves as part of the IJB budget planning. An annual review should then be incorporated into the annual budget setting process.

Medium term financial planning and transformation

2018/19 Conclusion: In the medium term, the IJB is faced with an extremely challenging financial position. Despite recommendations in the last two years, a medium to longer term plan had not yet been developed due to the lack of a dedicated IJB finance team. We also recommended that IJB develop a transformational plan to outline how services will be provided in the future whilst maintaining financial balance.

2019/20 Update: a Medium Term Financial Strategy (MTFS) was approved by the Board in December 2019. This includes a baseline "do nothing" scenario which estimated a cumulative deficit of £44.4m over the five year period to 2024/25 as a result of projected general price inflation, demographic changes and non-demographic growth. Management have updated this estimated in early 2020 and, as illustrated below, the deficit is projected to be £58.1m.



Financial sustainability (continued)

Medium term financial planning and transformation (continued)

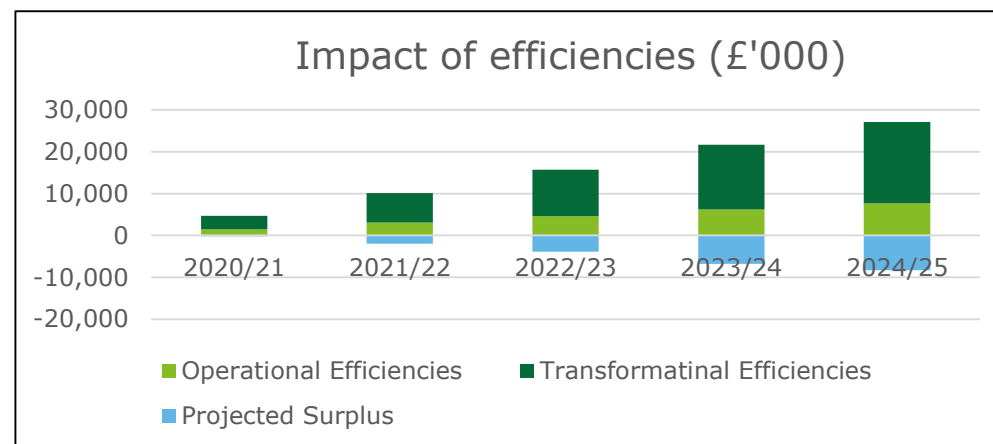
The MTFS makes a clear distinction between operational efficiencies and transformation, operational efficiencies being the maximisation of the output for a given set of inputs, e.g. through the use of new software programs to help cut staff travel time between appointments. Transformational efficiencies is about maximising the benefit from the overall resource, e.g. commissioning fewer hospital beds but using that resource to increase care at home.

By incorporating an annual efficiency contribution of £1.5m into the gap profile as an initial indicative, a cumulative deficit of £30m would still remain. The IJB is therefore clear that transformation and reform is required.

Management are currently developing transformation plans to address this challenge, with specific plans at varying stages of development. These are being discussed through the Budget Working Group. The following have been approved in principle:

- **Adult**
 - Reablement
 - Mobile Attendant Scheme
- **Children and Families**
 - Multi-Agency Assessment and Screening Hub
 - Whole Family Whole System Approach
 - Cunningham Place Development
 - Signs of Safety

While the specific details have yet to be agreed and further due diligence work is required, the estimated impact of these plans address the funding shortfall, bringing the IJB into an annual surplus position for reinvestment, as illustrated opposite:



In 2018/19, South Ayrshire Council provided additional funding of £3.277m to offset overspends in the year, with the agreement that this would be repayable by way of reduced funding in future years. The IJB repaid £0.291m in 2019/20, with the remaining balance due to be repaid over the next three years.

2019/20 Conclusion: it is positive to note that a MTFS has been developed and work is progressing with transformation plans to address the significant funding challenges that the IJB faces. There is a clear commitment to transformational change. It is critical that detailed plans are developed and implemented at pace to ensure that the projected efficiencies are achieved. The IJB must ensure that sufficient resources are in place to manage this plan, and have a clear benefits tracker in place to demonstrate that the transformation initiatives are achieving the desired results, as recommended in our 2018/19 report.

Given the risks associated with COVID-19 highlighted in the 2020/21 budget, discussed on page 22, these will need to be taken into account in further development of these transformational plans. The IJB continues to be faced with an extremely challenging financial position.

Financial sustainability (continued)

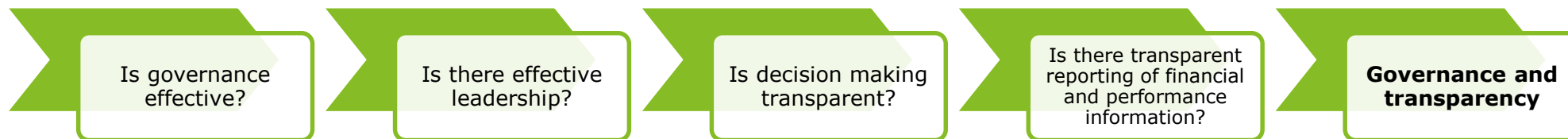
Deloitte view – Financial sustainability

As noted on page 22, the IJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. The IJB has also started to repay the loan from the Council in relation to the additional funding provided in 2018/19 as a result of overspends in the year. However, the IJB is still faced with significant financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

It is positive to note that a MTFS has been developed and work is progressing with transformation plans to address the significant funding challenges that the IJB faces. It is critical that detailed plans are developed and implemented at pace to ensure that the projected efficiencies are achieved. The IJB must ensure that sufficient resources are in place to manage this plan, and have a clear benefits tracker in place to demonstrate that the transformation initiatives are delivering the outcomes planned. Given the risks associated with COVID-19, these will need to be taken into account in the further development of these plans.

Governance and transparency

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



Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risks in our audit plan:

"There is a risk that the partner bodies and IJB members do not have a clear understanding of their respective roles and responsibilities. As a result, there continues to be an ongoing risk that that the IJB does not achieve the full benefits of integration."

"In view of the recent legal challenge in relation to the closure of a Day Centre where the Court of Session concluded that the IJB had failed to consult with residents, there is a risk that the IJB is not fully open and transparent in its decision making as it looks to redesign services to meet increasing demand and costs. We will therefore consider how the IJB is consulting with stakeholders as part of this process".

Leadership

2018/19 Conclusion: We reported that there had been a significant turnover of staff during 2018/19, particularly in Children's Services, the impact of which was being closely monitored by the Care Inspectorate.

2019/20 Update: There has continued to be a number of changes in leadership during the year, particularly in the senior management team (SMT), which includes a newly appointed Head of Children, Family and Justice, Head of Older People, Chief Social Work Officer, Chief Finance Officer and Senior Manager Planning and Performance. From an interview with a sample of Board members these changes have been seen as positive.

Operationally, the structure is designed to better support the transformation agenda and enhance governance and regulatory requirements. However, significant issues remain in relation to the decision making process resulting in the close of the Kyle Day Centre (discussed further on page 29) and the slow progress with some of the critical actions arising from the Significant Case Review (discussed further on page 32). Clear strategic leadership is needed to drive forward the required changes.

2019/20 Conclusion: We are pleased to note that there is now a full SMT in place to better support at an operational level. However, leadership at the strategic level is currently not sufficiently focused. Further work is required to ensure that the partnerships is appropriately resourced and focusing on the areas of most critical concern.

Governance and transparency (continued)

Governance and scrutiny arrangements

2018/19 Conclusion: There was a general consensus that a comprehensive review of the roles and responsibilities was required to clarify the inter-relationship with the NHS and Council and where responsibilities lie, and that this should be done as part of the review of the Integration Scheme. A number of key governance documents had not been reviewed or refreshed since the IJB's inception in 2015. We recommended that the IJB should regularly review the key governing documents in line with the Public Bodies (Joint Working) (Scotland) Act 2014 and to ensure that they are still fit for purpose.

2019/20 Update: Progress has been made in a number of areas to review and enhance the governance and scrutiny arrangements. Some key governance documents, such as Standing Orders and Scheme of Delegation have, however, not been reviewed and updated since 2015.

- the Integration Scheme has been reviewed jointly with the Council and NHS Board, the outcome of which was reported to both the Council and the NHS in March 2020. While some issues were highlighted as part of the consultation, as summarised below, it was agreed that no changes were required to the Scheme at this stage.

Areas requiring further consideration following review of the Integration Scheme

- **To be considered by the Programme Board**
 - Finance
 - Children Social Work Services
- **To be considered by the IJB Chief Officer**
 - Governance and Scrutiny relationship – proposals are in development that will better define roles and responsibilities of the respective parties.

- The IJB took part in a pan-Ayrshire review to develop approaches to "Directions", which was supported by the Scottish Government and resulted in guidance being issued to all IJBs by the Scottish Government in January 2020. This was designed to help empower IJBs to use the totality of resources at their disposal to better meet the needs of the population. It also provides greater clarity on the legal mechanism of Directions and the relationship between the three bodies.
- The IJB also completed a self-assessment on how it has progressed the proposals made by the Ministerial Strategic Group (MSG) to improve integration. 31 actions were identified to improve performance in Collaborative Leadership and Building Relationships and Integrated Finances and Financial Plan. Progress against these actions has been reported to the Performance and Audit Committee. As at the end of January, 10 actions were complete, one was on target for completion and 20 were slightly adrift. Management has confirmed that these will be progressed with the new members of the SMT appointed early in 2020.

Training has taken place with IJB members during the year, with a number of workshops taking place on specific topics to help ensure IJB members fully understand their role. In response to the issues that the IJB faced in 2018/19, it is positive to note the development of a quarterly three-way meeting of Strategic Groups, which are held between the leaders of the IJB and the two partners, to discuss issues and how to improve integration.

Governance and transparency (continued)

Governance and scrutiny arrangements (continued)

In response to the COVID-19 pandemic, all formal governance meetings were suspended and authority delegated to the Chief Officer to take operational decisions that would normally require Board approval. IJB members have received regular briefings in the intervening period. These arrangements have been kept under review and agreement was made at the June 2020 board meeting to recommence all governance meetings, with a full schedule in place from August 2020. All meetings will be held virtually and to maintain the principle of maximum transparency, all public meetings will be streamed and/or recorded where possible.

2019/20 Conclusion: The IJB has made significant developments with its governance and scrutiny arrangements during the year. It is important that areas identified from the review of the Integration Scheme are progressed during 2020/21. Appropriate arrangements have been put in place in response to the COVID-19 pandemic. The IJB should continue to review all governance documents to ensure they are up to date and fit for purpose.

Strategic Plan

2018/19 Conclusion: The Strategic Plan 2018 – 2021 was approved by the Board in June 2018. This notes that all of the work being taken forward continues to be done within the context of a challenging financial and operational environment.

2019/20 Update: The IJB's focus this year has been on achieving financial sustainability through early intervention and prevention, defining new ways of working to enable people to be supported in the community. The management structure also underwent significant change in the year. The new appointments are expected to better support the transformation agenda and enhance governance and regulatory required.

As the IJB moves into the final year of the current Strategic Plan, it recognises that the timing of the development of the new Plan will allow for a period of reflection on the COVID-19 response and planning what the future will look like with the "Caring for Ayrshire" set out by NHS Ayrshire and Arran.

2019/20 Conclusion: The IJB continues to have a robust approach to strategic planning and is starting the development of the next Plan. It is important that this work is progressed in line with the MTFS to demonstrate that resources are directed in line with priorities.

Openness and transparency

2018/19 Conclusion: In general, the IJB had a good attitude to openness and transparency and there is a supportive culture that underpins this. Decision making is transparent, although we recommended the IJB seek views of stakeholders to help inform future decisions.

2019/20 Update: As reported in our audit plan, in view of the recent legal challenge in relation to the closure of a Day Centre where the Court of Session concluded that the IJB had failed to consult with residents, we identified that there is a risk that the IJB is not fully open and transparent in its decision making as it looks to redesign services to meet increasing demand and costs.

The IJB has improved its approach to openness and transparency in the year, through a number of consultations that have taken place, including the consultation on the Integration Scheme. Papers and minutes for all Board and Committee meetings continue to be publicly available through the IJB's website.

Governance and transparency (continued)

Openness and transparency (continued)

In response to the specific issue in relation to the closure of the Kyle Day Centre as a result of the decision by the Court of Session, the Day Centre has remained open to service the needs of a small number of service users. A consultation process on the future of the service has been undertaken informed by internal legal advice, but delays resulting from the COVID-19 pandemic mean that the findings of the consultation have not yet been formally considered. At present, the Centre remains open.

As reported within the Annual Report and Accounts, the IJB has recognised that the circumstances around this case have provided an opportunity to further examine and strengthen a number of governance processes, including those associated with public consultation and the decision-making relationships between the IJB and Council governance structures. Work is currently progressing to develop and publish clearer standard operating arrangements. Given the significance of this issue and its impact on service users, it is critical that this review, at both operational and strategic level, is undertaken with lessons learned reported back to the IJB to ensure that the decision making structure is clear and similar issues do not recur. We would recommend that once the structures are agreed, the adherence to the structures is considered as part of a future internal audit programme to give the IJB assurance on these processes. We acknowledge that internal audit has already incorporated a review of the IJB's decisions and directions as part of the 2020/21 internal audit plan.

2019/20 Conclusion: In general, the IJB continues to be open and transparent in relation to the decisions it makes. Some specific issues have arisen during the year as a result of the decision to close the Day Centre. While it is positive to note that the IJB is taking the opportunity to review its arrangements to ensure that similar legal issues do not recur in the future, this needs to be progressed as a matter of priority, with lessons learned reported back to the IJB.

Deloitte view – Governance and transparency

We are pleased to note that there is now a full SMT in place to better support at an operational level. However, leadership at the strategic level is currently not sufficiently focused. Further work is required to ensure that the partnerships is appropriately resourced and focusing on the areas of most critical concern.

The IJB has made significant developments with its governance and scrutiny arrangements during the year. It is important that areas identified from the review of the Integration Scheme are progressed during 2020/21. Appropriate arrangements have been put in place in response to the COVID-19 pandemic.

In general, the IJB continues to be open and transparent in relation to the decisions it makes. Some specific issues in relation to public consultation and adherence to processes have arisen during the year. While it is positive to note that the IJB is taking the opportunity to review its arrangements to ensure that similar legal issues do not recur in the future, this needs to be progressed as a matter of priority, with lessons learned reported back to the IJB.

We would also recommend that internal audit consider this as part of its future programme of work.

Value for money

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



Areas considered

Our approach to the audit dimensions is risk focused. While we have not identified any specific risks in our audit plan, we have continued to review the IJB's performance against its objectives, the IJB's reporting and monitoring of these and the actions taken to improve the performance of the IJB.

We have also maintained our ongoing dialogue with the Care Inspectorate to assess progress and any further improvements required in relation to the performance issues highlighted in a recent Significant Case Review.

Performance management

2018/19 Conclusion: The IJB has a performance management framework in place, with performance regularly considered by management and the Board. The IJB clearly reports on its contributions towards the national outcomes through its quarterly and annual performance reports.

2019/20 Update: the IJB continues to have a well-established performance management framework in place. The format of Performance Reports was updated during 2019/20 following feedback from Committee members, and the reports now contain more detailed trend information, data in graphical format and data analysed by locality where possible.

It monitors against all the agreed national indicators including:

- Ministerial Steering Group Indicators; and
- HSCP National Health and Wellbeing Outcome Indicators.

The IJB has also received performance information in the year in relation to the impact the financial recovery measures made in 2018/19 to balance the budget have had on delayed discharge. This is a positive development and links to the recommendation made on page 20 where there needs to be a clearer link between budget setting and outcomes.

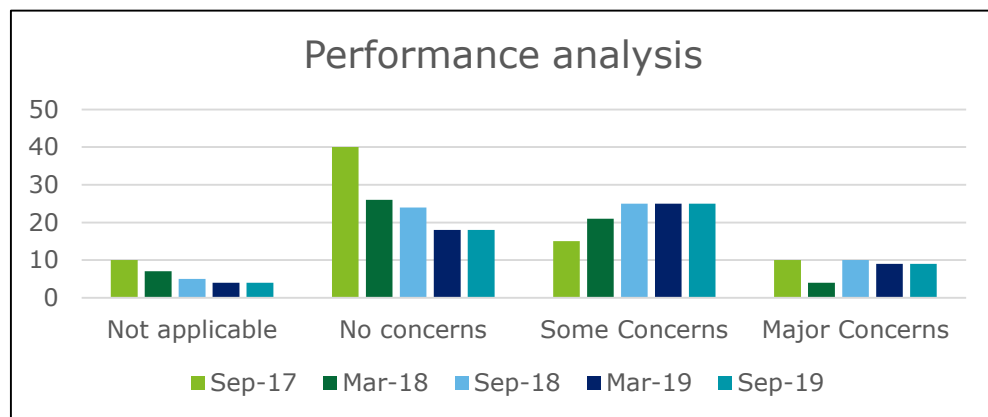
2019/20 Conclusion: the IJB continues to have an embedded performance management culture supported by its performance management systems which analyse data, track progress and identify actions. The specific reporting of how financial decisions impact performance is a positive step. In addition, there is regular performance information which is provided to the Performance and Audit Committee, IJB members, operational managers and is publicly reported. However, we recognise that, as a result of the COVID-19 pandemic, the normal performance monitoring arrangements are not in place and a Annual Performance Report will be published later in the year.

Value for money (continued)

Performance data

2018/19 Conclusion: Between September 2017 to September 2018 there had been an increase in the number of 'some concern' indicators reported from 15 to 25, however the number of 'major concern' indicators remained at 10.

2019/20 Update: As illustrated in the graph below, overall performance has remained relatively static from September 2018 through to September 2019, with the March 2020 data not published due to delays as a result of COVID-19.



Of the 9 areas of 'Major Concerns', 7 are within Adults and Older People services and 2 within Children's Health Care and Justice. In response to the concerns in Adults and Older People services in relation to delayed discharge, unplanned hospital admissions and accident and emergency department attendance rates, a South Ayrshire Health and Social Care Partnership Driving Change Group was established to develop a comprehensive shared delivery programme based on integrated, supportive and well-articulated pathways that seek to prevent unnecessary hospital admissions, reduce time spent in acute facilities, support timeous hospital discharge and reduce unnecessary readmissions.

It is too early to see the impact of these activities on the performance data and outcomes.

As noted on page 22, the HSCP developed a mobilisation plan detailing additional activities to support its response to COVID-19. This provided a focal point for the partnership's response to the pandemic. Specific action included:

- Early focus on reducing delayed discharges – South Ayrshire reduced its delayed discharge from 76 at 4 March to 27 at 22 April in line with the Scottish Government target. This was achieved through commissioning of additional care home beds and care at home provision.
- As a result of social distancing, some services had to cease and innovative solutions have been put in place to communicate with service users.
- Increased volume of Personal Protective Equipment purchased.
- Technology sourced to allow staff to work from home.
- Remobilisation plans were developed to redeploy existing staff to areas of need.

A "Phase 2" mobilisation plan was presented to the IJB in June for consideration. This set out the findings from the initial COVID-19 learning exercise and a number of key themes have emerged around:

- Agile/remote working and importance of technology;
- Empowerment of staff;
- Enablement and empowerment of service users and families;
- Communication;

Value for money (continued)

Performance data (continued)

- Partnership working;
- Commissioned services and quality assurance;
- Premises; and
- Leadership.

It is important that as the Board move to the next phase in responding to COVID-19 that it focuses on lessons learned and how some of the changes made can be sustained. It is positive to note that the IJB has already started collating this information.

2019/20 Conclusion: The IJB's overall performance has remained largely consistent with previous years. A number of actions are being progressed to address the areas of 'major concern' but will take time to implement and see the desired results. The pace and scale of transformation needs to increase to address the challenges faced. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

Regulator review

2018/19 Conclusion: A number of performance issues in relation to Adult Services, highlighted in a Significant Case Review (SCR) published in April 2019 were being monitored by the Care Inspectorate.

2019/20 Update: The SCR was published in April 2019. An Action Plan was developed based on the five key recommendation of the report. The action plan is reviewed on a quarterly basis at the Clinical and Care Governance Operational Group with progress reported through the Clinical and Care Governance Committee and Adult Protection Committee. The Care Inspectorate visited during June/July 2019 to check progress against the action plan. Recommendations from their report were incorporated into the action plan.

An update on the progress with the action plan was provided to the IJB in December 2019. This reports that a total of 14 actions were completed with eight still outstanding. Of significant note is the lack of progress on the roll-out of the Carefirst system, despite the SCR recommending "*The South Ayrshire HSCP must take urgent steps to ensure the roll-out of the Carefirst system across all its services within the shortest achievable timescale. It must devote the necessary staff and other resources required to ensure the implementation of this recommendation*". The second phase for adult services went live on 1 April 2019 and was originally anticipated to be completed by 31 December 2019, but has been delayed further and is not yet complete. A Programme Board has met monthly to monitor progress, however, a number of issues have arisen in implementing the system that were not initially anticipated.

It was also noted that while the backlog of case reviews were initially cleared in response to the issues raised, this has subsequently increased indicating a lack of sustainable resources to meet ongoing statutory requirements and points towards the need for more robust oversight from strategic leaders to ensure that critical risks are mitigated. Management undertook a detailed analysis of demand and capacity across adult services in 2019 with a view to identifying how best to allocate staffing resources. This review identified a shortfall in capacity for review officers. We are pleased to note that as part of the 2020/21 budget approval, the IJB has approved funding for an additional three Community Care Assistants to support the reviews and recruitment is now progressing, although this has been delayed due to the COVID-19 pandemic. Given the significance of the findings in the SCR report, which concluded a number of failures within the service, it is concerning that the actions have not yet been fully addressed, over 15 months since receiving the formal report.

The Care Inspectorate continue to closely monitor progress and assess any further improvements required.

Value for money (continued)

Regulator review (continued)

2019/20 Conclusion: While actions are progressing to address the significant concerns raised as part of the SCR, the progress to date is not in line with expectation and while initial actions have proved unsustainable, additional staffing capacity has now been approved. The remaining actions need to be taken forward by the strategic leadership team through the provision of appropriate resources, oversight and support to ensure that the actions can progress and the actions implemented are sustainable in the longer term.

Deloitte view – Value for money

The IJB continues to have an embedded performance management culture supported by its performance management systems which analyse data, track progress and identify actions. In addition, there is regular performance information which is provided to Committee, IJB members, operational managers and is publicly reported. The specific reporting of how financial decisions impact performance is a positive step.

Performance data has shown little change, with overall performance remaining largely consistent with previous years. Prior to the COVID-19 pandemic, while actions have been identified to change models of service delivery and improve outcomes, the impact is not yet evidenced in the performance data. The pace and scale of transformation needs to increase to address the challenges faced. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

While actions are progressing to address the significant concerns raised as part of the SCR, the progress to date is not in line with expectation. This needs to be taken forward by the strategic leadership team, providing appropriate resources and support to ensure that the actions can progress and ensure the actions implemented are sustainable in the longer term.

Best value

It is the duty of the IJB to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

Duty to secure best value

1. It is the duty of the IJB to make arrangements which secure best value.
2. Best value is continuous improvement in the performance of the IJB's functions.
3. In securing best value, the IJB shall maintain an appropriate balance among:
 - a) The quality of its performance of its functions;
 - b) The cost to the IJB of that performance; and
 - c) The cost to persons of any service provided by the IJB for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the IJB shall have regard to:
 - a) Efficiency;
 - b) Effectiveness;
 - c) Economy; and
 - d) The need to make the equal opportunity requirements.
5. The IJB shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an IJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

BV arrangements

The IJB has a number of arrangements in place to secure best value. This is evidenced through the Strategic Plan and the Annual Performance Reporting.

As noted elsewhere within this report, the IJB has an established governance framework. However, leadership at the strategic level is currently not sufficiently focused. Further work is required to ensure that the partnership is appropriately resourced and focusing on the areas of most critical concern.

The IJB recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is required to achieve medium to longer term financial sustainability.

Deloitte view – best value

Subject to the improvements that we have identified within this report, the IJB has sufficient arrangements in place to secure best value and has a clear understanding of areas which require further development.

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:** Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing.
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>

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 Performance and Audit Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 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.

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.

Use of 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.

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 procedures performed in fulfilling our audit plan.

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



Pat Kenny, CPFA

For and on behalf of Deloitte LLP

Glasgow | 27 August 2020

Action plan

Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Financial management - Savings plans</i>	We recommend that the financial monitoring reports clearly set out the progress being made against approved savings. A risk rating could be applied to inform IJB members of any specific areas of concern (see page 20 for details).	Management accept this recommendation. The financial monitoring reports for 2020-21 have been revised, with a section on approved savings including a (BRAG) risk rating applied. Commentary to be added to explain areas of concern and action being taken.	Chief Finance Officer	31 March 2021	Medium
2	<i>Financial sustainability - reserves strategy</i>	The Reserves Strategy should be reviewed, in particular ensuring there is a clear policy for planning for adequate reserves as part of the IJB budget planning. An annual review should then be incorporated into the annual budget setting process (see page 23 for details).	Management accept this recommendation. We will include a review of the reserves strategy as part of the budget setting process.	Chief Finance Officer	31 March 2021	Low
3	<i>Financial sustainability - medium term financial planning</i>	Details transformation plans need to be developed and implemented at pace to ensure that the projected efficiencies are achieved. The IJB must ensure that sufficient resources are in place to manage this plan, and have a clear benefits tracker in place to demonstrate that the transformation initiatives are achieving the desired results, as recommended in our 2018/19 report (see page 24 for details).	Management accept this recommendation. Following the recent approval of the Medium Term Financial Strategy, transformation plans will be created this year with a benefits tracker to ensure plans are meeting the desired outcomes.	Chief Finance Officer	31 March 2021	High

Action plan (continued)

Recommendations for improvement (continued)

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
4	<i>Governance and scrutiny arrangements</i>	<p>The areas identified from the review of the Integration Scheme must be progressed during 2020/21.</p> <p>The IJB should continue to review all governance documents to ensure they are up to date and fit for purpose (see pages 27-28 for details).</p>	<p>Management accept this recommendation. The new members of the SMT will enable progression of the actions outstanding from MSG recommendations. Directions work on the set aside budget will be progressed during the year with the Ayrshire CFO's.</p>	Chief Officer/Chief Finance Officer	31 March 2021	Medium
5	<i>Governance and scrutiny - Openness and transparency</i>	<p>The IJB should complete its review of the circumstances around the Kyle Day Centre case to further examine and strengthen a number of governance processes including those associated with public consultation and the decision-making relationships between the IJB and Council governance structures. Lessons learned should be reported back to the IJB (see page 29 for details). Internal Audit should also consider this in future audit programmes. Internal Audit have already built this into their 2020/21 internal audit plan.</p>	<p>Management accept this recommendation. This will be progressed during the year with new revised guidance to be approved by IJB.</p>	Chief Officer	31 March 2021	High
6	<i>Value for money – regulator review</i>	<p>The action plan from the SCRs needs to be taken forward by the strategic leadership team, providing appropriate resources and support to ensure that the actions can progress and ensure the actions implemented are sustainable in the longer term (see page 32 for details).</p>	<p>Management accept this recommendation. This will be progressed during the year when specific resources are available. Delay is expected this year due to resources focusing on the Covid response.</p>	Chief Officer	31 March 2021	High

Action plan (continued)

Follow-up prior year action plans

We have followed up the recommendations made in our previous annual reports and are pleased to note that 5 of the total 7 recommendations made have been fully implemented. The following recommendations have either not been implemented or are only partially implemented. We will continue to monitor these as part of our audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Budgeting process	<p>We recommended the following improvements to the budget setting process:</p> <ul style="list-style-type: none"> • There needs to be a link between the budgeted spend and the IJB's priorities as set out in the Strategic Commissioning Plan. • There needs to be improved links between the budget and outcomes: there is no information of the outcomes the IJB expects to be progressed (and to what extent) by the budget, which makes it difficult for the IJB to assess to what extent budgetary decisions are impacting on outcomes achieved. <p>(see page 20 for details)</p>	We agree with the recommendation and would welcome further discussion and advice on how to best implement this.	Chief Officer/ Chief Finance Officer	31/03/2020	Medium	<p><i>Not implemented:</i> We continue to recommend that budgets are more closely linked to priorities and outcomes.</p> <p>Updated management response: Improvements have been made in budget setting and linking to Strategic Priorities. The link between budgets and outcomes is not easily identifiable. Further discussion required.</p> <p>Updated target date: 31 March 2021</p>

Action plan (continued)

Follow-up prior year action plans (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Review of Governance Arrangements</i>	<p>The key governing documents should be reviewed and refreshed on a periodic basis in line with the Public Bodies (Joint Working) (Scotland) Act 2014 and to ensure that they are still fit for purpose.</p> <p>We understand that in response to the financial challenges that have arisen in 2018/19, there is a general consensus that a comprehensive review of the governance structure is required to clarify the inter-relationship with the NHS and Council and where responsibilities lie. This should be done as part of the review of the Integration Scheme (see page 28 for details).</p>	<p>Management accept this recommendation. This will be progressed as part of the review of the Integration Scheme during 2019/20.</p>	Chief Officer	31/3/2020	High	<p><i>Partially implemented:</i> The Integration Scheme has been reviewed, however, the review of other key governance documents has not progressed.</p> <p>Updated management response: Resources are now in place to progress revision and review of the current Governance documents.</p> <p>Updated target date: 31 March 2021</p>

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

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



Required representations:

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

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



Audit work performed:

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

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

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

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

Concerns:

No issues to report.



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 the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and our objectivity is not compromised.

Fees The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £26,560, as analysed below:

	£
Auditor remuneration	18,300
Audit Scotland fixed charges:	
Pooled costs	1,790
Contribution to PABV	5,360
Audit support costs	1,110
Total fee	26,560

No non-audit services fees have been charged for the period.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard 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.

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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