

# Argyll and Bute IJB

2017/18 Annual Audit Report



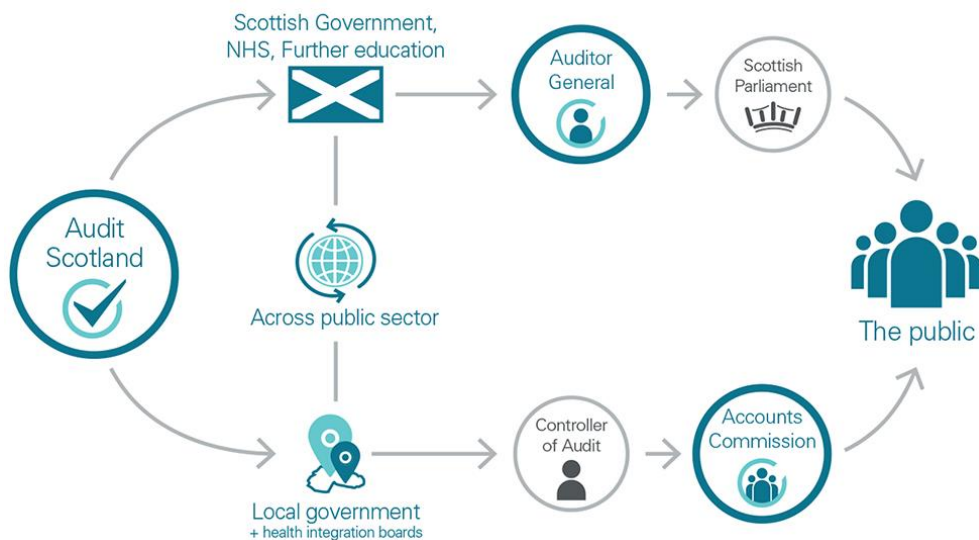
 AUDIT SCOTLAND

Prepared for Argyll and Bute IJB and the Controller of Audit  
September 2018

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## 2017/18 annual report and accounts

- 1 In our opinion Argyll and Bute IJB's financial statements give a true and fair view and were properly prepared.
- 2 The management commentary, remuneration report and annual governance statement were consistent with the financial statements and prepared in accordance with applicable guidance.

## Financial management and sustainability

- 3 The IJB has adequate financial management arrangements in place with areas for improvement such as ensuring the efficiency of its financial monitoring through further integration of financial reporting.
- 4 The IJB's financial position is challenging. It incurred an overspend of £2.5 million in 2017/18, funded by its partner organisations, and expected to be repaid through a reduction in future years' funding. A review of the integration scheme is on-going, including a review of risk-sharing arrangements between Argyll and Bute Council and NHS Highland.
- 5 The IJB has yet to agree a balanced budget for 2018/19 and is currently in discussions with Argyll and Bute Council and NHS Highland to agree the funding. Until the budget is approved, a budget gap of £1.6 million remains and there is uncertainty around any impact on the IJB's provision of services.
- 6 The IJB forecasts a funding deficit over the next four years, resulting in a cumulative budget gap of £24 million by the end of 2021/22. Without a medium to long-term financial plan, the IJB cannot demonstrate how it will make the required savings and deliver its key priorities within the available financial resources. Effective partnership working and realistic savings plans will be essential for the IJB to deliver its strategic objectives while ensuring its financial sustainability.

## Governance, transparency and value for money

- 7 The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board. However, with both the Chief Finance Officer and Chief Officer leaving the organisation, the IJB needs to ensure that the new management structure will provide a good basis for a strong strategic direction and sound financial governance.
- 8 The IJB conducts its business in an open and transparent manner. Its meetings are open to the public and meeting papers and minutes are available on its website.
- 9 The IJB has prepared a workforce plan for adult services and now needs to develop an overarching workforce plan covering all services to ensure it has appropriate skills and capacity in key areas.
- 10 Value for money is a key element of our audit approach. This report comments on arrangements in place to secure Best Value in areas such as the financial management and sustainability. We will keep this area

**under review over the five-year audit appointment and will report as appropriate.**

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# Introduction

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**1.** This report is a summary of our findings arising from the 2017/18 audit of Argyll and Bute Integration Joint Board, hereby referred to as ‘the IJB’.

**2.** The scope of our audit was set out in our Annual Audit Plan presented to the Audit Committee meeting on 29 March 2018. This report comprises the findings from our main elements of work in 2017/18 including:

- a review of the IJB's main financial systems
- an audit of the IJB's 2017/18 annual accounts including issuing an independent auditor's report setting out our opinion
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1

### Audit dimensions



Source: *Code of Audit Practice 2016*

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**3.** The IJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

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

**5.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the

[Code of Audit Practice \(2016\)](#), supplementary guidance, and International Standards on Auditing in the UK.

**6.** As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the IJB's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this, we aim to support improvement and accountability.

**7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#) and supplementary guidance.

**8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist.

**9.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**10.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £0.024 million, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**11.** Our aim is to add value to IJB by increasing insight into, and offering foresight on financial sustainability, risk and performance and by identifying areas for improvement and recommending / 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.

**12.** This report is addressed to both the board and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

# Part 1

## Audit of 2017/18 annual accounts



### Main judgements

**In our opinion Argyll and Bute IJB's financial statements give a true and fair view and were properly prepared.**

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

### Audit opinions on the annual accounts

**14.** The annual accounts for the year ended 31 March 2018 were approved by the board on 26 September 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary, and annual governance statement were all consistent with the financial statements and properly prepared in accordance with proper accounting practices.

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

The annual accounts are the principal means of accounting for the stewardship of the board's resources and its performance in the use of those resources.

### Submission of annual accounts for audit

**16.** We received the unaudited annual accounts on 26 June 2018, in line with our agreed audit timetable.

**17.** Argyll & Bute Council and NHS Highland provided financial information to the IJB in a timely manner which allowed the IJB to produce the annual accounts before the statutory deadline. The partner authorities also provided the IJB with assurance letters confirming that the figures in the accounts were complete and accurate. Additionally, the IJB submitted information required for consolidation purposes to NHS Highland within the agreed timetable.

**18.** The working papers provided with the unaudited annual accounts were of a good standard and the interim Chief Finance Officer provided sufficient support to the audit team to enable the audit to run smoothly.

### Risks of material misstatement

**19.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process, wider dimension risks, how we addressed these and our conclusions. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the audit and directing the efforts of the audit team.



## Materiality

**20.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

**21.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. We assess the materiality of uncorrected misstatements, both individually and collectively. The assessment of materiality was recalculated on receipt of the unaudited financial statements and is summarised in [Exhibit 2](#).

## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£2.651 million
Performance materiality	£1.856 million
Reporting threshold	£0.100 million

Source: Audit Scotland, 2017/18 Annual Audit Plan

## How we evaluate misstatements

**22.** There were no material adjustments to the unaudited financial statements arising from our audit.

## Significant findings from the audit in accordance with ISA 260

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. In our view there are no significant findings to be communicated to those charged with governance in accordance with ISA 260.

**24.** The findings include our views about significant qualitative aspects of the board's accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements
- Misstatements in the annual report and accounts
- Disagreement over any accounting treatment or financial statements disclosure

## Good Practice

**25.** The annual accounts largely reflect Audit Scotland expectations on good practice in the compilation of IJB financial statements. It was noted that the management commentary was rather long; it could be reduced in length to become more succinct without compromising the core messages within. But we would like to highlight good practice in the use of tables in the management commentary of the accounts, which provides clarity regarding the overspend against budget across the range of service areas.

## Follow up of prior year recommendations

**26.** We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

**27.** In total, four agreed actions were raised in our 2016/17 Annual Audit Report, relating to the integration of financial reporting, balancing of budgets, preparation of medium to long-term financial plans and workforce planning. While the IJB has made some progress in implementing the recommended actions, none of them have been fully implemented so far. Revised responses and timescales have been agreed with management in [Appendix 1](#).

# Part 2

## Financial management and sustainability



### Main judgements

The IJB has adequate financial management arrangements in place with areas for improvement. In particular, the IJB needs to improve the efficiency of its financial monitoring through further integration of financial reporting.



The IJB's financial position is challenging. It incurred an overspend of £2.5 million in 2017/18, funded by its partner organisations and expected to be repaid through a reduction in future years' funding. A review of the integration scheme is on-going. This includes a review of risk-sharing arrangements - how budget underspends and overspends might be written back to Argyll and Bute Council and NHS Highland in the future.

The IJB has yet to agree a balanced budget for 2018/19 and is currently in discussions with Argyll and Bute Council and NHS Highland to agree the funding. Until the budget is approved, a budget gap of £1.6 million remains and there is uncertainty around the IJB's provision of services.

The IJB forecasts a cumulative funding deficit over the next four years, resulting in a cumulative budget gap of £24 million by the end of 2021/22. Without a medium to long-term financial plan, the IJB cannot demonstrate how it will make the required savings and deliver the key priorities within the available financial resources. Effective partnership working and realistic savings plans will be essential for the IJB to deliver its strategic objectives while ensuring its financial sustainability.

### Financial management

**28.** As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering several factors, including whether:

- the Chief Financial Officer has sufficient status to be able to deliver good financial management
- standing financial instructions and financial regulations are comprehensive, current and promoted within the IJB
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- IJB members provide a good level of challenge and question budget holders on significant variances.

**29.** We concluded that, overall, the IJB has adequate financial management arrangements in place with areas for improvement.

**30.** The IJB has appropriate budget monitoring arrangements in place which provide timely and reliable information for monitoring financial performance and support the board's scrutiny of the financial position. The Chief Financial Officer presents budget monitoring reports at each Board meeting. These set out the projected outturn for the financial year, reasons for any variances, details of the required savings and key risks affecting the IJB's financial performance. We observed several IJB meetings and noted a good level of discussion and challenge provided by the IJB members.

**31.** The financial regulations and standing financial instructions are comprehensive but have not been reviewed since they were originally agreed by the IJB. Standing orders were due for review in April 2017, and financial regulations should have been subject to review in December 2017. Management have advised that both documents would be reviewed as part of the governance review planned for 2018/19.

**32.** We recommended in our 2016/17 Annual Audit Report that financial reporting of Argyll & Bute Council and NHS Highland should be aligned to improve the efficiency of the IJB's financial monitoring. The IJB agreed a plan of actions to improve the IJB's approach to financial management including co-locating finance teams, creating consistent approach for financial forecasting, training for budget managers and creating integrated finance reports for Locality Planning Groups and operational management teams. However, this action plan has not yet been implemented. As at end of August 2018, the interim Chief Financial Officer is forming a short-life working group to take this work forward. Until the action plan is implemented there is a risk that the efficiency and effectiveness of integrated budget monitoring information is affected.

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

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### Recommendation 1

**The IJB should further improve the efficiency of its financial monitoring through integration of financial reporting. (recommendation b/f 4, appendix 1)**

## Systems of internal control

**33.** The IJB relies on the NHS Highland and Argyll & Bute Council for its key financial systems, including ledger and payroll. All transactions are processed through each of the partner systems and all the controls over systems are within the council and the health board, rather than the IJB.

**34.** As part of our audit approach we sought assurances from the external auditors of the NHS Highland and Argyll and Bute Council and confirmed there were no weaknesses in their systems of internal controls, specifically around the systems relied upon by the IJB.

## Financial performance in 2017/18

**35.** The IJB does not hold any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer. All funding and expenditure for the IJB is incurred by partners' bodies and processed in their accounting records. Satisfactory arrangements are in place to identify this income and expenditure and report this financial information to the IJB's annual accounts.

**36.** When the 2017/18 budget was originally set, there was a savings gap of £2.8m. Further work was subsequently undertaken to identify savings but there remained a savings gap of £1.98m for 2017/18 and £4.15m for 2018/19. A financial

recovery plan was implemented in August 2017 to improve the projected year-end outturn position. This included a moratorium on all non-essential expenditure, and tighter financial control with focussed financial monitoring and reporting. However, the recovery plan did not deliver the savings required to prevent an overspend against budget.

**37.** The IJB reported an overspend of £2.53 million against its 2017/18 budget as summarised in [Exhibit 4](#) (£0.48 million in 2016/17). The most significant areas of overspend were:

- Adult care: £5.1 million. Planned savings of £3.4 million were not achieved in this area, for example a £1.3 million saving in community hospital bed reduction was not achieved. There were other significant areas of overspend due to cost pressures, such as in locum costs (£1.5 million), which exacerbated the adverse year end position.
- Chief Officer: £0.9 million. An overspend of £1.7 million reflects the budget gap for Council services which was rolled in to 2017/18's budget, but not achieved. This was partly offset by greater savings than budgeted being achieved in this area as a result of the recovery plan.
- Other areas such as Estates and Greater Glasgow and Clyde Commissioned services also overspent by a total of £0.4 million.

**38.** The IJB considers the main reasons for the overspend to be:

- unidentified savings of £2 million at the start of the year, for which no recurring savings were identified during the year
- delay in delivering recurring savings included in the Quality and Finance Plan, representing a shortfall of £4.5 million
- ongoing service pressures in areas which have historically been budget pressure areas, including medical agency and locum costs, GP prescribing costs, high-cost care packages and demand for social care services.

## Exhibit 4

### Performance against budget

IJB budget objective summary	Budget £m	Actual £m	Variance £m
Health Services- NHS Highland	194.699	196.072	(1.373)
Social Care Services- Argyll and Bute Council	67.840	68.995	(1.155)
<b>Total Net Expenditure</b>	<b>262.539</b>	<b>265.067</b>	<b>(2.528)</b>
IJB Reserves used in 2017/18		0.375	
Additional NHS Highland Funding		1.373	
Additional Argyll and Bute Council Funding		1.155	

Source: 2017/18 Argyll and Bute IJB Annual Accounts

**39.** In line with the integration scheme, this overspend was funded by the partner organisations. In particular, the social care overspend of £1.16 million was covered by the council and the health services overspend of £1.37 million by the health board. The IJB has agreed with both partners to spread the recovery of its 2017/18 overspend over the three years to 2020/21 through reductions in future funding. As recovery relates to amendments to future years' funding contributions, no creditor was recognised on the IJB's balance sheet and no corresponding debtor in the council and health board's accounts.

**40.** The IJB's Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £0.4 million (surplus of £0.48 million in 2016/17), reducing the IJB reserves to £0.1 million (£0.48 million in 2016/17). Had the additional funding not been provided by the council and the health board, this deficit would increase to £2.9 million.

**41.** In February 2018, Argyll and Bute Council initiated a review of the integration scheme to ensure that it continues to meet the Scottish Government's policy expectations. This will include a re-assessment of the risk-sharing arrangements, in particular how budget underspends and overspends might be written back to the council and the health board in the future. A short-life working group is to be formed for this purpose and this is expected to include appropriate representation from the IJB, the council and the health board.

## Financial planning

**42.** As at end of August 2018, the IJB has yet to agree its 2018/19 budget. 2018/19 budget report, presented to the IJB on 1 August 2018, shows that Argyll and Bute Council and NHS Highland offered a total funding of £265 million for 2018/19. The IJB forecasts its expenditure exceeding the offered funding by £12.2 million and, after including the identified recurring savings of £10.6 million, there remains a budget gap of £1.6 million. The IJB indicated that it will only accept funding offers once it receives further clarification from its partner organisations on whether these are sufficient for the delivery of delegated services. If additional funding offers are not possible, then the IJB will need to achieve an additional £1.6 million of savings. Until the budget is approved, there is uncertainty around any impact on the IJB's provision of services.

**43.** Based on the funding offers of £265 million, the IJB projects an overspend of £4.4 million for 2018/19. The majority of this projected overspend is due to savings of £10.6 million, identified in the Quality and Finance Plan, not being delivered. The IJB agreed at its 1 August 2018 meeting that no further savings could be identified that would be in line with the IJB's strategic objectives.

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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.

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### Recommendation 2

**The IJB should ensure for future years that balanced budgets and savings plans are fully agreed in advance of the start of the new financial year. (recommendation 1, appendix 1)**

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**44.** In the longer term, the IJB forecasts a cumulative funding deficit over the next four years, resulting in a cumulative budget gap of £24.2 million by the end of 2021/22. This assumes that the current budget gap of £1.6 million remains. The IJB based its projections on a baseline cost of services, uplifted for increased costs, demand pressures and inflation.

**45.** We recommended in our 2016/17 Annual Audit Report that the IJB should develop a medium to long-term financial plan. The IJB has since started progressing this work and is currently developing a financial plan for 2018/19-2020/21 alongside its new strategic plan to ensure that the two plans are appropriately linked. Until a medium to long-term financial plan is in place, the IJB

cannot demonstrate how it will make the required savings and deliver the key priorities within the available financial resources.



### Recommendation 3

**The IJB should finalise developing a medium to longer-term financial plan against the findings of the ‘Scotland’s public finances’ report, which sets out the important elements that should feature in an overarching financial strategy. (recommendation b/f 3, appendix 1.)**

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#### Efficiency savings

**46.** The IJB was required to make efficiency savings of £8.7 million in 2017/18 to maintain financial balance. By 31 March 2018, the IJB only achieved £4.1 million of savings and £4.5 million of unachieved savings were rolled forward into 2018/19. A number of these have been in the savings plan for the last two years and there remains a high risk that they will once again not be delivered in 2018/19.

**47.** In total, the IJB forecasts that it needs to make £10.6 million of savings during 2018/19. However, as at end of August 2018, the IJB achieved only £0.54 million of the planned savings. There is therefore a high risk that the majority of these savings will not be achieved and this may impact on the IJB’s ability to meet its strategic objectives. Furthermore, although these savings plans are of high value, they do not reflect the significant service re-design required by the IJB.

**48.** The agreement of 2018/19 savings plans has been a challenging process. The planned private session to discuss proposed savings, including potential service changes, was cancelled at the IJB budget-setting meeting on 28 March 2018. As a result, the IJB revised the proposed savings plans and discussed these in a public session. The budget gap at this point was £2.4m.

**49.** The savings plans as proposed at the 30 May 2018 meeting showed an improved budget gap of £1.6m. A significant part of this improvement was due to the IJB agreeing with partner bodies to repay the 2017/18 budget overspend over three years to 2020/21. The board agreed to address the remaining budget gap by means of a financial recovery plan. The recovery plan relies on tight financial management and focussed monitoring and reporting of the financial position.



### Recommendation 4

**The IJB should ensure that its savings plans are realistic and achievable, to prevent continuous rolling forward of unachieved savings into the future years. (recommendation 2, appendix 1)**

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#### Reserves strategy

**50.** The IJB approved its reserves policy in March 2017. The reserve policy states that there should be a 'practical and prudential' attitude towards creating a general fund reserve, and that the optimum level of reserves is a general fund balance of around 2 per cent of the net revenue budget. This equates to around £5 million.

**51.** The integration scheme requires the use of reserves to reduce any overspends before further funding is contributed by partner organisations. The IJB has chosen to budget for nil reserves which is not unreasonable in the current financial position. In 2017/18, it held a small reserve of £0.1 million, a majority of which is earmarked for specific health projects.

# Part 3

## Governance, transparency and value for money



### Main judgements

The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board. With both the Chief Finance Officer and Chief Officer leaving the organisation, the IJB needs to ensure that the new management structure will provide a good basis for a strong strategic direction and sound financial governance for the organisation.

The IJB conducts its business in an open and transparent manner. Its meetings are open to the public and meeting papers and minutes are available on its website.

The IJB prepared a workforce plan for adult services and now needs to develop an overarching workforce plan covering all services to ensure it has appropriate skills and capacity in key areas.

### Governance arrangements

**52.** The IJB is responsible for the management and delivery of health and social care services in Argyll & Bute area. The board includes representatives from a wide range of service users and partners, including four elected councillors nominated by Argyll and Bute Council and four non-executive directors nominated by NHS Highland. The IJB is supported by the Audit Committee which provides monitoring and assurance on the IJB's governance arrangements.

**53.** The board and Audit Committee met on a regular basis throughout 2017/18. We review minutes of the board and Audit Committee meetings to assess their effectiveness and also attend meetings of the Audit Committee and selected board meetings as observers. We concluded that board members and management understand the distinct nature of their roles and the majority of board members contribute fully to the discussion and demonstrate effective scrutiny.

**54.** Additionally, we found that board members are provided with appropriate induction and training. Management regularly organises development sessions for the board, in advance of most meetings. We concluded that the content of these sessions was appropriate, and that the sessions were well attended.

**55.** The IJB is also supported by the Chief Officer who provides strategic and operational advice to the board and the Chief Finance Officer who is responsible for the IJB's financial management including budget monitoring reports.

**56.** In July 2018, the Chief Financial Officer resigned and the current Chief Financial Officer was appointed on a fixed-term basis for six months. The Chief Officer has also given notice that she is leaving at the end of September 2018. A recruitment process is underway with the intention of having a new Chief Officer in place by mid-September. A permanent appointment of the Chief Financial Officer was postponed to allow the IJB to appoint a new Chief Officer first. This will allow

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.



the new Chief Officer to lead the recruitment process for the new permanent Chief Financial Officer.

**57.** In addition to this, the IJB reviewed its management structure. This included re-grading of the Chief Financial Officer post to a Head of Service to recognise the demands and complexity of the role and have parity with the role in other IJBs.

**58.** While we consider that the arrangements in place continue to support good governance and accountability overall, the IJB needs to ensure that the new management structure will provide a good basis for a strong strategic direction and sound financial governance for the organisation. This is particularly important given the current need for significant review and re-design of health and social care services across Argyll and Bute region.

## Workforce planning

**59.** In our 2016/17 Annual Audit Report we recommended that the IJB should develop an overarching workforce plan that should clearly set out the required staff resources across the statutory, independent and third sectors required for service delivery. Since then, the IJB has developed a workforce plan for adult services which was presented to the board on 1 August 2018. The IJB now needs to build on this work and develop an overarching workforce plan across all services.

**60.** Until an overarching workforce plan is developed, there is a risk that the IJB may be unable to deliver its corporate strategy, including its plans for service re-design, due to skills and capacity gaps in key areas. This risk is exacerbated due to the challenging geography and declining and ageing population of Argyll and Bute, resulting in partner organisations commissioned to deliver services struggling to attract appropriate staff. This was evident during 2017/18 when the IJB experienced vacancies in key positions with some of the posts filled on a temporary basis with agency staff or with short-term secondments.



### Recommendation 5

**The IJB needs to continue developing an overarching workforce plan covering all services to ensure it has appropriate skills and capacity in key areas. (recommendation b/f 4, appendix 1)**

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## Transparency

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

**62.** Full details of the board meetings are available through the IJB's website with public access to all board and Audit Committee papers and minutes of their meetings. Meetings are advertised well in advance and board meetings are open to the public. There are a small number of papers scheduled for private consideration in specific circumstances.

**63.** Overall, we concluded that the IJB conducts its business in an open and transparent manner.

## Internal audit

**64.** Internal audit provides the IJB board and Accountable Officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.

**65.** The internal audit function is carried out by Scott-Moncrieff. We reviewed the adequacy of the internal audit function and concluded that Scott-Moncrieff operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**66.** To avoid duplication of effort, we place reliance on the work of internal audit wherever possible. In 2017/18, we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, we considered internal audit's work on risk management and service re-design & project management as part of our wider dimension work.

## **Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

**67.** The IJB places reliance on anti-fraud strategies of both NHS Highland and Argyll and Bute Council. Registers of interest are kept up to date for all members of the IJB. However, an up to date register of interests is not available on the IJB's website for public inspection.

**68.** Based on our review of the evidence we concluded that A&B IJB has effective arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that need to be recorded within this report.

## **Other governance arrangements**

**69.** The IJB is committed to ensuring the involvement of partner groups including community planning groups, the third sector, the independent sector and local communities. The strategic plan and locality planning arrangements enable partners to engage in and support the delivery of the health and social care provision.

**70.** The IJB is in the process of developing a new three-year strategic plan 2019/20 to 2021/22. However, strategic planning at the local level is not yet wholly effective in contributing to the IJB's strategic planning process. The majority of Locality Planning Groups currently do not have appropriate action plans in place and the IJB recognises the need to improve its locality planning arrangements. Effective partnership working will be essential for ensuring that appropriate objectives are determined for the IJB's next strategic plan.

**71.** The Scottish Government issued a [\*Public Sector Action Plan on Cyber Resilience\*](#) in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. The review of cyber security is carried out by the partner bodies, based on the fact the IJB are dependent on the processes and procedures in place at each of the partners.

**72.** The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. All EU member states must implement the Regulation in the same way. GDPR has introduced new and significantly changed data protection concepts. Although the IJB relies on the GDPR compliance of the partner bodies which deliver their services, the IJB still needs to review the impact of regulation on its operations.



### **Recommendation 6**

**The IJB should consider the impact of GDPR on its operations to ensure that its processes for processing personal data comply with the requirements of the new legislation. (recommendation 3, appendix 1).**

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## Value for money and performance management

**73.** Best Value duties apply to accountable officers across the public sector. As part of this year's audit we have looked at how the IJB demonstrates that it is meeting its BV duties.

**74.** To achieve value for money the IJB should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

**75.** The IJB's current strategic plan covers the period 2016/17 to 2018/19, and identifies seven strategic priorities that are linked to the Scottish Government's health and wellbeing outcomes. These are:

- Promote healthy lifestyle choices and increase self-management of long term conditions
- Reduce the number of avoidable emergency admissions to hospital.
- Minimise the time that people are delayed in hospital.
- Reduce the adverse events for children and young people, and provide the best start in life for them.
- Institute a continuous quality improvement management process within a change process across the functions delegated to the Partnership.
- Operate as a single services and single health and care team at locality level by integrating services and our workforce supported by integrated strategy, corporate service, systems and procedures.
- Efficiently and effectively manage all resources to deliver Best Value

**76.** The IJB demonstrates how it is meeting its BV duties through its reporting against key performance indicators, the progress the partnership is making towards delivering the priorities of the strategic plan, and through its financial performance reporting mechanisms.

**77.** The Planning and Performance Management Framework is in place to monitor the IJB's performance against the National Health and Wellbeing Outcome indicators. This is regularly reviewed by the Strategic Management Team and the board receives monthly performance reports outlining performance against a number of key measures. Where there is a downward trajectory on achieving the targets or there are other significant exceptions, more detailed reports are included and presented to the board. The IJB's performance is evaluated against 102 monitored success measures - 23 of these are required sub-indicators of the National Health and Wellbeing Outcome indicators and the remainder are locally determined measures.

**78.** The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. Guidance highlights that the report should cover areas including assessing performance in relation to national health and wellbeing outcomes, financial performance and best value, reporting on localities, inspection of services, and a review of strategic commissioning plan. The annual performance report was presented to the board on 1 August 2018, in line with the requirements of the act. It showed that 65 of 102 success measures were on track in 2018/19 and highlighted a number of areas for improvement. We will keep this area under review over the five-year audit appointment and will report as appropriate.

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

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## National performance audit reports

**79.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18 we published some reports which are of direct interest to the Board as outlined in [Appendix 3](#).

**80.** In December 2015, Audit Scotland published the first of three national reports looking at the integration of health and social care. In the report we recognised that The Public Bodies (Joint Working) (Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms are far reaching and have scope to address previous barriers to providing the right care for people closer to home.

**81.** Audit Scotland also reported some significant risks to the success of health and social care integration. These included complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. The scale of the change is significant and will not happen quickly.

**82.** Therefore, Audit Scotland have carried out a second audit in 2018, now integration authorities are more established, to look at progress and to follow up on these risks. The audit will also examine changes to the system, including evidence for shifts in service delivery from acute to community-based and preventative services, and for impact on the lives of local people. The report is due to be published in November 2018.

# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Budget Setting</b></p> <p>The IJB has yet to agree its 2018/19 budget. Argyll and Bute Council and NHS Highland offered a total funding of £265 million for 2018/19. The IJB forecasts its expenditure exceeding the offered funding by £12.2m. Including identified savings, there remains a £1.6m budget gap. The IJB has not accepted the funding offers.</p> <p><b>Risk</b></p> <p>If budgets are not agreed on a timely basis, there is a risk that the IJB may not be able to deliver services on a sustainable and planned basis.</p>	<p>The IJB should ensure for future years that balanced budgets and savings plans are fully agreed in advance of the start of the new financial year.</p> <p><a href="#">Paragraph 43</a></p>	<p>Agreed that this a key component of sound financial control, necessary governance and in keeping with statute, budgets will be developed and approved by 31 March 2019 and in accordance with the IJB's internal timetable.</p> <p>Chief Officer/Chief Finance Officer</p> <p>March 2019</p>
2	<p><b>Savings Plans</b></p> <p>£4.5 million of unachieved savings in 2017/18 were rolled forward into 2018/19 Quality and Finance Plan. A number of the savings delayed to 2018/19 have been in the savings plan for the last two years.</p> <p><b>Risk</b></p> <p>There remains a risk that these savings will not be delivered in 2018/19.</p>	<p>The IJB should ensure that savings plans are realistic and achievable, to prevent rolling forward savings plans into future years.</p> <p><a href="#">Paragraph 47</a></p>	<p>Agreed. This is entirely integral to the IJB's Quality and Finance Plan which is currently being refreshed. This process will produce a realistic budget with deliverable savings plans, and is due to be concluded by 31 October 2018.</p> <p>Chief Officer/Chief Finance Officer</p> <p>October 2018</p>
3	<p><b>GDPR Review</b></p> <p>The IJB has not carried out an internal review to assess the impact of GDPR coming into force.</p> <p><b>Risk</b></p>	<p>The IJB should consider the impact of GDPR on its operations to ensure that its processes for processing personal data comply with the requirements of the new legislation</p>	<p>The IJB is working closely with Council and NHS Highland colleagues to ensure full compliance with GDPR regulations which were effective from 25/05/2018. This includes appropriate training and guidance for all staff and</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	There is a risk that the IJB could be in breach of its statutory responsibilities under GDPR.	<a href="#">Paragraph 72</a>	will be the subject of ongoing audit review. Chief Officer With immediate effect

### Follow up of prior year recommendations

b/f 1	<p><b>Integrated Financial Reporting</b></p> <p>The finance teams of NHS Highland and Argyll &amp; Bute Council operate independently, use different financial systems, and report separately to the IJB Chief Financial Officer. This poses challenges of aligning financial monitoring data for the IJB.</p> <p><b>Risk</b></p> <p>There is a risk that the efficiency and effectiveness of integrated budget monitoring information is impaired.</p>	<p>Partner financial reporting should be aligned to improve the efficiency of the IJB's financial monitoring.</p> <p><b>Update</b></p> <p>The IJB has not progressed the integration of financial reporting arrangements to the original timetable. As at August 2018, the interim Chief Financial Officer is forming a short-life working group to take this work forward.</p>	<p>Agreed as critical for openness and transparency as well as consistency in reporting.</p> <p>A timetable for financial reporting will be agreed by the end of the calendar year. This will encapsulate the requirements of both statutory bodies and align reporting policies and procedures.</p> <p>Chief Finance Officer December 2018</p>
b/f 2	<p><b>Balanced Budgets (NB risk as reported in 2016/17 AAR, figures are not up to date)</b></p> <p>Between 2017/18 and 2018/19 the board has identified a budget gap of £18.551 million This is split £10.135m for 2017/18 and £8.416m for 2018/19. The board has yet to identify £1.982 million of necessary savings for 2017/18 with a further £4.153m yet to be identified for 2018/19.</p> <p>The position has since worsened to a forecast budget shortfall of £4.966m.</p> <p><b>Risk</b></p> <p>The board may not be able to deliver a balanced budget in 2017/18 and 2018/19 resulting in service delivery being impacted</p>	<p>The board should ensure that saving plans are developed identifying how the budget gap will be addressed for 2017/18.</p> <p>This will require strong financial management and budgetary control by the IJB and between parties to ensure the IJB achieves a balanced budget for the year.</p> <p><b>Update</b></p> <p>A financial recovery plan was implemented in 2017/18. However, the IJB finished the year with a £2.5m overspend against budget, which was funded by the partner bodies.</p> <p>The IJB budget for 2018/19 currently has a £1.6m gap in addition to the £10.6m of planned savings.</p>	<p>Learn lessons from the financial recovery plan that operated in 2017/18 such that the IJB and its partners have greater confidence in future delivery.</p> <p>Ensure that a realistic budget is developed and understood by the IJB, including accountability. This budget is to include deliverable and owned savings plans.</p> <p>Chief Officer / Chief Finance Officer September 2018</p>
b/f 3	<p><b>Financial Sustainability (as reported in 2016/17 AAR, figures are not up to date)</b></p>	<p>Medium to long term financial plans should be developed to take account of any required</p>	<p>Agree that this is required to support the financial and operational sustainability of</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>The Board did not achieve its savings target of £8.498m for 2016/17, with only £4.814m being realised. Further savings of £12.416m have been identified with £8.153m planned to be delivered in 2017/18 and a £4.263m in 2018/19.</p> <p><b>Risk</b></p> <p>There is a risk that further savings are not fully achieved. This may impact on the delivery of services and the ability of the IJB to meet its strategic objectives.</p>	<p>future budget savings pressures on the IJB.</p> <p><b>Update</b></p> <p>The IJB is currently developing a financial plan for 2018/19-2020/21 alongside its new strategic plan to ensure that the two plans are appropriately linked.</p>	<p>services provided to the population of A&amp;B.</p> <p>A three year recovery plan is being developed with health and council partners to this effect and is subject to review by the Scottish Government. This needs to be complete by end September 2018.</p> <p>Chief Finance Officer</p> <p>October 2018 per draft timetable (with a health specific plan due by September 2018)</p>
b/f	<p><b>Workforce Planning</b></p> <p>The IJB does not have an overarching workforce plan in place clearly setting out what staff resources across the statutory, independent and third sectors will be required for service delivery.</p> <p><b>Risk</b></p> <p>Without such a workforce plan there is a risk that the IJB will find it difficult to identify and address its future staffing and skills needs this may impact the achievement of the key objectives of its corporate strategy.</p>	<p>The IJB should prepare an organisation-wide workforce plan.</p> <p><b>Update</b></p> <p>The IJB has developed a workforce plan for adult services. An organisation wide workforce plan is not yet in place.</p>	<p>Agreed that the workforce plan needs to be organisation wide and focused on development of the workforce.</p> <p>Complete the development of the workforce plan.</p> <p>Chief Officer</p> <p>March 2019</p>

# Appendix 2

## Significant audit risks identified during planning

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












Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Review of the assurances provided by the of NHS Highland and Argyll and Bute Council.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Review of accounting estimates.</p>	<p>Satisfactory written assurances were received from the external auditors of the council and health board regarding accounting estimates, journal testing and accuracy, allocation and cut-off of IJB transactions.</p> <p>No fraud concerns were identified from our work in relation to the risk of management override of control.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p>2 <b>Financial management – year end outturn</b></p> <p>The approved budget for 2017/18 shows funding of £258.855 million and total required funding of £266.052 million. After taking into account in year savings there remains a budget gap of £2.816 million for 2017/18. The budget update report to the end of December 2017 projected a year-end overspend of £2.915 million. It also indicated that the IJB may not be able to achieve £4.043 million of its in year savings of £8.197 million planned for 2017/18. There is therefore a risk that the IJB will not break even in 2017/18 and this may in turn increase the already substantial financial pressures for 2018/19 and beyond.</p>	<p>Monitor the financial position throughout the year by reviewing budget monitoring reports.</p> <p>On-going dialogue with officers regarding the projected year end outturn.</p> <p>Review of the IJB's achievement of outturn at year end.</p> <p>Review of financial statements to ensure that expenditure and income has been accounted for in the correct financial year.</p>	<p>Expenditure and income had been appropriately accounted for at the year end.</p> <p>We concluded that the setting of a balanced budget continues to be significant area of risk.</p> <p>Action Plan (Appendix 1, points 1 &amp; b/f 2).</p>
<p>3 <b>Financial sustainability</b></p>	<p>Review of approach to medium and long-term</p>	<p>The IJB does not have long term financial plans in place; these are being developed alongside the</p>



Audit risk	Assurance procedure	Results and conclusions
<p>The budget outlook report to the end of December 2017 forecasts a shortfall of £10.1 million in 2018/19 (including the projected overspend for 2017/18). This creates a risk over the financial sustainability of the IJB.</p> <p>The IJB does not currently have financial plans beyond 2018/19. There is a risk that the IJB does not have a complete picture of its financial position and the challenges it faces in meeting its objectives in the medium to longer term.</p>	<p>financial planning, including any scenario planning.</p> <p>Review of budget outlook reports and other reports presented to the board.</p>	<p>strategic plan in order to ensure they are appropriately linked.</p> <p>Savings plans for 2018/19 include items which were not achieved in prior years and have been rolled into 2018/1. There is a risk that the IJB will not achieve its £10.6m of savings targets.</p> <p>Action Plan (Appendix 1, points 2 &amp; b/f 3).</p>
<p><b>4 Workforce Planning</b></p> <p>Following our 2016/17 annual audit report recommendation, the IJB has developed locality workforce planning models but has yet to develop an overarching workforce plan clearly setting out staff resources across the statutory, independent and third sectors required for service delivery. During 2017/18, the IJB has experienced a number of vacancies in key positions with some of the posts filled on a temporary basis with agency staff or short-term secondments.</p> <p>Until an overarching workforce plan is developed, the risk remains that the IJB may be unable to deliver its corporate strategy, including its plans for service re-design, due to skills and capacity gaps in key areas. This risk is exacerbated due to the challenging geography and declining and ageing population of Argyll and Bute as its partner organisations commissioned to deliver services may not be able to attract appropriate clinical staff.</p>	<p>Monitor progress with the preparation and implementation of the workforce plan.</p>	<p>An adult services workforce plan has been approved by the IJB, though the organisation wide workforce plan remains a work in progress.</p> <p>Action Plan (Appendix 1, point b/f 1).</p>

# Appendix 3

## Summary of national performance reports 2017/18

		 <b>2017/18 Reports</b>	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		<b>Jun</b>	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		<b>Aug</b>	
Equal pay in Scottish councils		<b>Sept</b>	
Transport Scotland's ferry services		<b>Oct</b>	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		<b>Nov</b>	
		Dec	
		Jan	
Early learning and childcare		<b>Feb</b>	
Managing the implementation of the Scotland Acts		<b>Mar</b>	

### Reports relevant to Integration Joint Boards

[Self-directed support: 2017 progress report](#) – August 2018

[NHS in Scotland 2017](#) – October 2018

# Argyll and Bute IJB

## 2017/18 Annual Audit Report

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