

East Lothian Integration Joint Board

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for East Lothian Integration Joint Board and the Controller of Audit

11 September 2019

Who we are

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

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



About us

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

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

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

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual accounts	7
Part 2 Financial management and sustainability	10
Part 3 Governance, transparency and value for money	14
Appendix 1 Action plan 2018/19	18
Appendix 2 Significant audit risks identified during planning	20
Appendix 3 Summary of national performance reports 2018/19	23

Key messages

2018/19 annual report and accounts

- 1** In our opinion the East Lothian Integration Joint Board's (the IJB) financial statements give a true and fair view and were properly prepared.
- 2** The management commentary, audited part of the remuneration report and annual governance statement were consistent with the financial statements and prepared in accordance with proper accounting practices and applicable guidance.

Financial management and sustainability

- 3** The IJB has appropriate financial planning arrangements in place. The budgetary processes provide timely and reliable information for monitoring financial performance.
- 4** The IJB and partners must work together to develop savings plans against the five year rolling budget to reduce estimated future funding gaps and to ensure continued service delivery. Regular updates on progress should be communicated to the board.
- 5** The IJB incurred a year-end surplus of £1.772 million and now has a Useable Reserve comprised of general and earmarked reserves. This has been agreed with the partner bodies.

Governance, transparency and value for money

- 6** The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board.
- 7** The IJB demonstrates a commitment to transparency in the way it conducts its business.
- 8** The annual Performance Report is currently in draft and due to be submitted to the IJB in September 2019. The IJB should ensure that the annual Performance Report is completed and submitted by 31 July as required by the Public Bodies (Joint Working) (Scotland) Act 2014.
- 9** 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. The annual Performance Report still requires to set out an assessment of how the IJB is meeting its best value duties in its delivery of services.
- 10** The IJB has effective arrangements for managing performance and monitoring progress towards their strategic objectives.

Introduction

1. This report is a summary of our findings arising from the 2018/19 audit of East Lothian Integration Joint Board (the IJB).

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Committee meeting on 10 January 2019. This report comprises the findings from our main elements of work in 2018/19 including:

- an audit of the IJB's 2018/19 annual accounts including issuing an independent auditor's report setting out 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](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

Adding value through the audit

3. We add value to the IJB, through audit, by:

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

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

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

Responsibilities and reporting

5. The IJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The IJB is responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

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

7. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

8. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. Weaknesses or risks identified in our annual audit report are only those which have come to our attention during our normal audit work and may not be all that exist.

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

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £25,000, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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 in due course.

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 2018/19 annual accounts



Main judgements

In our opinion East Lothian 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 proper accounting practices and applicable guidance.

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.

Audit opinions on the annual accounts

14. The annual accounts for the year ended 31 March 2019 were approved by the board on 11 September 2019. We reported within the independent auditor's report that:

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

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.

Submission of annual accounts for audit

16. We received the unaudited annual accounts on 27 June 2019 in line with our agreed audit timetable. Financial information was provided to the IJB in a timely manner from the partner bodies in order to allow it to produce its accounts by the statutory deadline. The partner bodies also provided the IJB with assurance letters confirming that the figures were complete and accurate.

17. The working papers provided with the unaudited annual accounts were of a good standard and finance staff provided good support to the audit team which helped ensure the audit process ran smoothly.

Risks of material misstatement

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

Materiality

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

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

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

Exhibit 2 Materiality values

Materiality level	Amount
Overall materiality	£1.6 million
Performance materiality	£1.2 million
Reporting threshold	£16,000

Source: East Lothian IJB 2018/19 Unaudited Annual Accounts

Significant findings from the audit in accordance with ISA 260

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. There were no significant findings in the 2018/19 audit. We also have no significant finding to report and on the qualitative aspects of the 2018/19 accounting practices.

Evaluation of misstatements

23. There were no material adjustments to the unaudited annual accounts arising from our audit. There were no individual misstatements which exceeded our reporting threshold.

Other Findings

24. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted for and are reflected in the audited annual accounts.

Follow up of prior year recommendations

25. The IJB has made progress in implementing our prior year audit recommendations. In 2017/18 we raised four recommendations in our annual audit report. During 2018/19 the IJB progressed and cleared two recommendations by preparing a five-year, rolling, medium term financial plan and, implementing a workforce plan for the IJB.

26. There are two recommendations from 2017/18 which remain open and these have been raised in [Appendix 1](#) with revised responses and timescales agreed with management. These actions are ongoing and relate to the development of longer term savings / efficiency plans against the five-year rolling plan and, submission of the performance report in line with national timescales.

Part 2

Financial management and sustainability



Main judgements

The IJB has appropriate financial planning and reporting arrangements in place. The budgetary processes provide timely and reliable information for monitoring financial performance.



The IJB incurred a surplus of £1.772 million and now has a Useable Reserve comprised of general and earmarked reserves. This has been agreed with the partner bodies.

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

Financial management

27. 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 (CFO) has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders 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.

28. Following the departure of the former Chief Officer (CO) in June 2018 a decision was taken by NHS Lothian and East Lothian Council to make an initial appointment to the post of CO on a temporary basis, with a view to seeking a permanent replacement in due course. The IJB appointed an interim CO during this time. In accordance with the policies and procedures of East Lothian Council and NHS Lothian, an appointment Committee was then constituted to seek a permanent replacement. The Committee was facilitated by NHS Lothian and East Lothian Council officers and the IJB formally approved the permanent appointment of the interim CO in April 2019.

29. The CFO retired during 2018/19. The role was filled on a permanent basis with the newly appointed CFO taking up the role in October 2018. There was no disruption to service during this time.

30. The CFO has sufficient status and is able to deliver good financial management. The CFO reports directly to the CO and regularly reports to the

board and the Audit and Risk Committee. From our attendance at both the board and Audit and Risk Committee meetings, we observed that members provide a good level of challenge and scrutiny on the material presented.

31. We also are satisfied that financial and wider performance reports are presented to the board on a timely and regular basis.

Systems of internal control

32. The IJB relies on the information generated by its partner bodies' key financial systems such as the ledger and payroll. The details of the IJB's financial transactions are processed through the partners systems and the controls over these systems are accounted for within these two bodies. The IJB's transactions are maintained separately from those of the partner bodies in the ledger.

33. As part of our audit approach and in accordance with ISA 402, we sought assurances from the external auditors of NHS Lothian and East Lothian Council who both confirmed there were no weaknesses in respective systems of internal control which would have a material impact on financial reporting.

Risk management

34. Risk management continues to be refined by the IJB. At its June 2019 Audit and Risk Committee, a demonstration of the risk register software was provided by officers. This was a useful exercise for both officers and members to understand what goes into creating, managing and addressing the IJB's strategic risks. Members took this opportunity to consult on the risk register, its presentation and commented that it is clearly laid out. The risk register highlights changes and updates from the last iteration. There were no new risks since the last register was presented. Member feedback on content is provided during meetings and officers seek to address this where possible. Officers clarified that only items that affect the delivery of the IJB's services would feature on the risk register. Other risks are contained within the partners risk registers. If necessary, these risks will be escalated to the IJB for information / wider awareness.

35. EU withdrawal will be added to the IJB's risk register after it was recognised that it affects all organisations. The risk will draw on and summarise the partners risk registers with the key areas being staffing and the availability of medicines. This will also ensure that the risk registers are joined up.

36. Based on our review of the evidence we concluded that the IJB has appropriate risk management arrangements which are subject to regular review by the board and Audit and Risk Committee.

Internal audit

37. We reviewed the IJB's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could rely on the work of internal audit.

38. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2018/19 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. We did consider the internal audit report findings as part of our wider dimension work: Adult Services (Residential Care, Payments on Schedule and Transport); Budget Monitoring; and Business Continuity Planning and Disaster Recovery. We also note that recommendations made by internal audit are being implemented in line with the agreed timescales.

Financial performance in 2018/19

39. The IJB does not have 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. A summary of the IJB's performance against budget is in [Exhibit 4](#).

40. For the majority of 2018/19, the IJB was projecting an overspend. In December 2018 a £764k projected overspend was reported to the IJB and amended to £715k in the February 2019 board update. During the latter part of the year new funding was allocated to Integration Authorities to support, for example, Primary Care Improvement and increased Mental Health Workforce as part of Scottish Government's Mental Health Strategy. As these funding sources were received part way through the financial year there was slippage in spending these allocations. The IJB correctly transferred the unspent funding into an earmarked reserve to carry forward for spending in future financial years. This has been agreed with the partners.

Exhibit 4 Performance against budget

IJB budget summary	Budget £000	Actual £000	Variance £000
Net Expenditure			
NHS Lothian	116,531	115,060	1,471
East Lothian Council	45,058	44,757	301
Total Net Expenditure	161,589	159,817	1,772
Surplus to be retained by the IJB		1,772	
Earmarked Reserves		695	

Source: East Lothian IJB Annual Account 2018/19

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.

Financial planning and sustainability

41. The Scottish Government published its medium term financial framework for Health and Social Care in October 2018. The framework was presented to the Audit and Risk Committee in January 2019 and has supported the development of the rolling five year financial plan.

42. The IJB prepared and presented a rolling five year financial plan to the board in June 2019. It is based on formal budget offers from partners and includes budget values for subsequent years. The summary provided to the board includes total anticipated delegated budgets over the next five years. It is reviewed and updated according to changes in partner funding.

43. In preparing the five year plan, the IJB ensured that health costs were based on detailed financial planning exercises conducted by NHS Lothian. For 2019/20, NHS Lothian have provided the IJB with additional funding to ensure that the base budget is uplifted by 2.6% and that unscheduled care investments made by NHS Lothian are also funded. The five year plan takes into account recurring and non-

recurring funding sources and has been updated to reflect these including a 5% growth in social care costs. The IJB has assumed that recurring funding is available in 2020/21 and factored these into their budget revisions. Further work needs to be done to identify savings beyond 2019/20.

44. The IJB's current five year plan indicates a total, projected funding gap by 2023/24 of £17.7m (11%). The IJB recognise the challenge ahead and have informed the board that only limited assurance can be given around its ability to break even in 2019/20, noting the significant financial challenges on the horizon.



Recommendation 1 ([refer appendix 1, action plan point 1](#))

The IJB and partners must work together to develop savings plans against the five year rolling budget to reduce estimated future funding gaps and to ensure continued service delivery. Regular updates on progress should be communicated to the board.

Reserves strategy

45. A reserves strategy is in place as part of the IJB's Integration Scheme. A reserves policy has been in place since 2016/17 with no significant changes noted since then.

46. The Integration Scheme sets out the arrangements between the partners for addressing and financing any overspends or underspends. Planned underspends may be retained by the IJB to either fund additional in-year capacity or be carried forward to fund capacity in future years in line with the Strategic Plan. Any unplanned underspend will be returned to NHS Lothian or East Lothian Council. In 2018/19 the IJB reported an underspend of £1.772 million. The underspend has been retained by the IJB for use in 2019/20 and is included within Useable Reserves (earmarked and general) in the accounts. This was agreed by the partners.

EU Withdrawal

47. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

48. East Lothian Council and NHS Lothian, the IJB's partners, have been making preparations for the impact of EU withdrawal on services. The IJB recognised that their own strategic risk register should be updated to reflect the work underway by the partner bodies in respect of EU withdrawal ([refer paragraph 37](#) above). The IJB will wish to be well informed in how the council and the health board are working to monitor and respond to the impact of the EU withdrawal.

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.



The annual Performance Report is currently in draft. The IJB should ensure that this report is completed and submitted by 31 July as required by the Public Bodies (Joint Working) (Scotland) Act 2014.

There is a lack of evidence to demonstrate how best value is being delivered in the IJB.

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.

Governance arrangements

49. The IJB is constituted through its Integration Scheme which is agreed by all partner bodies and was updated in March 2019 and presented to the board. The IJB is responsible for overseeing the delivery of health and social care services for East Lothian including responsibility for performance management.

50. The board has representation from a range of service users and partners including four elected voting members nominated by East Lothian Council and four voting members from NHS Lothian. The board aims to meet on a near-monthly basis and in 2018/19 met nine times (seven times in 2017/18). The board is supported by an Audit and Risk Committee. The Audit and Risk Committee meets on a quarterly basis and in 2018/19 met four times as planned (four times in 2017/18). We attend, where possible, and review minutes of board and Audit and Risk Committee meetings to assess their effectiveness. Board and, Audit and Risk Committee meetings are well attended with members providing a good level of scrutiny and challenge. Officers take actions away and these are addressed and updated in subsequent meetings.

51. The IJB is supported in its work by a Chief Officer and a Chief Finance Officer. The Chief Officer provides strategic and operational advice to the IJB while the Chief Finance Officer is responsible for financial management including budget monitoring reports. Both the Chief Officer and Chief Financial Officer were present at the 2018/19 Audit and Risk Committee meetings and provided good summaries and responded to member queries.

52. We conclude that overall the IJB has adequate governance arrangements in place and they provide a framework for effective organisational decision making.

Openness and transparency

53. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. 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.

54. There is evidence from a number of sources which demonstrates the IJB's commitment to transparency for example, all papers for board and Audit and Risk Committee meetings are publicly available. Meetings can also be observed by members of the public with the press routinely in attendance. This is considered good practice as not all public sector bodies offer this level of transparency, particularly when it comes to the Audit and Risk Committee.

55. In addition, full details of the meetings held by the IJB are available through the East Lothian Council website where access is given to all committee papers and minutes of meetings (note, the IJB do not have their own website). The IJB receives regular financial monitoring reports which are clear and concise.

56. We conclude that the IJB demonstrates a commitment to openness and transparency.

Transparent reporting of financial performance

57. The management commentary that accompanies the financial statements should clearly explain how a body has performed against its budget and how this is reconciled to the financial statements. The IJB's management commentary explains its in-year financial performance setting out key areas against the IJB's Strategic Plan. Outturn against the budget for both health and social care is clearly summarised with notes and explanations provided as appropriate. The commentary is concluded by highlighting key risks and uncertainties going forward including financial pressures, delivery of the Carers Act, workforce challenges, increasing population and wider Scottish and UK uncertainties.

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

Value for money

58. 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. Our audit covers the four audit dimensions, as set out in [Exhibit 1](#), which are key components of securing best value in the provision of services and the use of resources.

Performance report and best value

59. 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.

60. The 2018/19 annual Performance Report is currently in draft and due to be submitted for approval to the board at its next meeting on 11 September 2019. The IJB should ensure that the annual performance report is completed and submitted by the 31 July as required by the Public Bodies (Joint Working) (Scotland) Act 2014.



Recommendation 2 ([refer appendix 1, action plan point 2](#))

The IJB should ensure that the annual performance report is completed and submitted by the 31 July as required by the Public Bodies (Joint Working) (Scotland) Act 2014.

61. We have reviewed the draft Performance Report and note that it summarises the IJB's main objectives, performance against integration and associated outcomes including national indicators, planning structures and, financial performance. This is in line with the national requirements.

62. Integration Joint Boards have a statutory duty to make arrangements to secure best value. 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. The performance report still requires to set out an assessment of how the IJB is meeting its best value duties in the delivery of services.



Recommendation 3 ([refer appendix 1, action plan point 3](#))

The IJB should assess and provide a summary in the annual Performance Report about how it is meeting its best value duties in the delivery of services.

63. The Strategic Plan identifies seven strategic priorities that are linked to the Scottish Government's ten health and wellbeing outcomes, together with the six additional outcomes for children and community justice. During 2018/19 the IJB agreed to focus its energies on priority work in order to deliver against financial pressures and to support service change and delivery of local, regional and national priorities. The agreed priorities are outlined in the revised Strategic Plan and are as follows:

- Deliver the Primary Care Strategy/New GP Contract Improvement Plan.
- Development and delivery of the Financial Plan for 2018/19 and beyond.
- Commence re-provision of Abbey and Eskgreen care homes; Edington and Belhaven hospitals and, provision of housing with care and care homes.
- Review Community Services for adults with complex needs.
- Review of services for adults with mental health and substance misuse issues.
- Implement the Carers Strategy.
- Review actions intended to deliver delayed discharges/emergency admissions/A&E improvements.

64. To support delivery of these priorities, in late 2018 the IJB developed a new strategic planning structure consisting of six 'Change Boards'. The Change Boards will focus on primary care; adults with complex needs; mental health and substance misuse; shifting the balance of care; re-provision programmes and; carers, to address and manage the priorities above.

65. The IJB has effective arrangements for managing performance and monitoring progress towards their strategic objectives however more could be done to demonstrate best value is being achieved ([refer paragraph 64](#) above).

National performance audit reports

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

67. The IJB has arrangements in place for considering and reviewing national reports including any locally agreed actions. Where actions are raised as a result of these reports, they are followed up in subsequent meetings.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Efficiency savings</p> <p>The IJB's five year financial plan highlights the funding gaps faced each year ranging from £1.5m (2019/20) rising to £17.7m by 2023/23. As reported to the board in June 2019, there is limited assurance over the IJB's ability to break even in 2019/20. Further work is required to ensure financial pressures can be addressed.</p> <p>Risk - The board may not be able to deliver the targeted savings / plans in 2019/20 and beyond.</p>	<p>The IJB and partners must work together to develop efficiency / savings plans against the five year rolling budget to reduce estimated future funding gaps and to ensure continued service delivery. Regular updates on progress should be communicated to the board.</p> <p>The board should ensure that saving plans are developed and monitored to identify how the 2019/20 £1.5 million funding gap will be bridged (refer paragraph 46).</p>	<p>Work to deliver a balanced budget in 2019/20 is underway and our quarter 1 financial forecasts are highlighting improved performance albeit the IJB is still not in balance for 2019/20. Further to this the IJB's 5 year plan continues to be refined and developed in line with financial recovery actions utilising the Scottish Government's Medium Term Financial Framework for Health and Social Care to support this work.</p> <p>Responsible officer: Chief Finance Officer</p> <p>Agreed date: March 2020</p>
2	<p>Annual Performance Report</p> <p>The 2018/19 annual Performance Report is currently in draft and due to be submitted for approval to the board at its next meeting on 11 September 2019. The IJB should ensure that the annual Performance Report is completed and submitted by the 31 July deadline.</p> <p>Risk – There is a risk that the IJB will fail to report its performance publicly in a timely fashion.</p>	<p>The IJB should ensure that the annual Performance Report is completed and submitted by the 31 July as required by the Public Bodies (Joint Working) (Scotland) Act 2014 (refer paragraph 62).</p>	<p>The annual report relies on activity and measurement data from information provided by NSS. This information was not received in time to allow the draft annual report to be presented to the IJB at its June meeting. The annual report will be presented to the next available IJB which is early September.</p> <p>Going forward for 2019/20 reporting arrangements are being made for all data required for the annual report is received in time to report to the IJB in line with the 31 July deadline.</p> <p>Responsible officer: Chief Officer</p> <p>Agreed date: 31 July 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Reporting best value</p> <p>East Lothian IJB has produced a draft Performance Report however the report does not include a best value assessment of the IJB's delivery of services. This is one of the prescribed areas that the Performance Report should cover.</p> <p>Risk - The performance report does not meet the requirements of the Scottish Government and the EL IJB cannot demonstrate best value.</p>	<p>The IJB should review and consider how it will report on best value in the 2019/20 annual Performance Report.</p>	<p>The 2019/20 Annual Performance Report will be developed and will include a best value assessment of the IJB s delivery of services.</p> <p>Responsible officer: Chief Officer</p> <p>Agreed date: 31 July 2020</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 report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Financial statement issues and risks identified in the Annual Audit Plan		
<p>1 Risk of management override of controls</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>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<p>Satisfactory</p> <p>Substantive testing of journals identified no errors.</p> <p>Accounting estimates, where applicable were satisfactory.</p> <p>No significant transactions outside the normal course of business were identified during the audit process.</p> <p>Service auditor assurances were received and were satisfactory.</p> <p>No fraud concerns were identified from our work in relation to the risk of management override of control.</p>
<p>2 Risk of fraud over expenditure</p> <p>The expenditure of the IJB is processed through the financial systems of East Lothian Council and NHS Lothian.</p> <p>There is a risk that non-IJB related expenditure is incorrectly coded to the IJB account codes.</p>	<p>Robust budget monitoring.</p> <p>Assurances to be provided to the IJB by East Lothian Council and NHS Lothian on the completeness and accuracy of transaction coded to IJB account codes.</p>	<p>Satisfactory</p> <p>Evidence of routine budget monitoring during 2018/19/</p> <p>Service auditor assurances were received and were satisfactory.</p> <p>No non-IJB related expenditure coded to the IJB was noted during the audit.</p>
Wider dimension issues and risk identified in the Annual Audit Plan		
<p>3 Financial management</p> <p>There is no obligation set out within the integration scheme for either partner to address any end-year overspend for the IJB. Current forecasts indicate that the IJB will overspend in 2018/19, as it has done in the previous two years before the partners provided additional funds. The partners have</p>	<p>In line with the protocol set out in the integration scheme, the partners are currently preparing recovery plans to achieve a break-even position.</p>	<p>Satisfactory</p> <p>Recovery plans at year-end were not required. In 2018/19 the IJB had a surplus of £1.782m. The IJB reviewed and updated their reserves policy to reflect this and ensure it was appropriate. A general and earmarked reserve have been set up.</p> <p>It is recognised by the IJB that a break even position and / or</p>

Audit risk	Assurance procedure	Results and conclusions
<p>indicated that their previous position of funding any end-year overspends is unsustainable.</p> <p>There is a risk that the IJB will be left with an unfunded overspend at year-end with no clear accountability for which party is responsible for addressing this.</p>		<p>funding year-end overspends is unsustainable.</p> <p>Revised Integration Scheme was prepared on 2 March 2019 and includes measures to address under and overspends.</p> <p>Improved and timely CFO updates to the IJB and the Audit and Risk Committee.</p>
<p>4 Financial sustainability</p> <p>The IJB is currently developing a three-year financial plan, recognising that the plan requires further development to consider how resources are to be re-prioritised to address issues of financial sustainability while facilitating a shift to community-based care.</p> <p>There is a risk that the IJB in partnership with NHS Lothian and East Lothian Council may not be able to identify sustainable savings measures or meet cost pressures as they arise. A key element of this is the long term (3-5 year) financial plan to ensure members of the board are aware of the cost pressures facing the IJB which could affect future service delivery.</p>	<p>Financial assurance paper to February 2018 IJB on progress towards financial plans.</p> <p>Financial plan to be in place by March 2019.</p>	<p>Satisfactory</p> <p>The Scottish Government published its medium term financial framework for Health and Social Care in October 2018.</p> <p>The framework was presented to the IJB Audit and Risk Committee on 10 January 2019 and has supported the development of the IJB's rolling five year financial plan.</p> <p>Following acceptance of the formal budget offers for 2019/20 from both partners and the indicative budget values for future years, the EL IJB rolling five year financial plan for 2019/20 – 2023/24 has been developed and was presented to the IJB on 4 June 2019.</p> <p>A financial outlook for 2019/20 was presented to the IJB on 28 March 2019, this was used to prepare the medium term plan.</p>
<p>5 Governance and transparency</p> <p>The most recent data from the Quarter 2 financial report forecasts an overspend for 2018/19. To date there has been limited information presented to the Board or Audit and Risk Committee with respect to recovery plans to address this overspend.</p> <p>There is a risk that the IJB is taking decisions on financial sustainability without adequately detailed information to do so.</p>	<p>Financial updates routinely provided to IJB.</p> <p>Financial plan to be in place by March 2019.</p> <p>2018/19 Internal Audit report on Budget Monitoring (May 2019).</p>	<p>Satisfactory</p> <p>Recovery plans at year-end were not required. In 2018/19 the IJB had a surplus of £1.782m.</p> <p>The IJB reviewed and updated their reserves policy to reflect this and ensure it was appropriate. A general and earmarked reserve have been set up.</p> <p>Regular financial updates have been provided to both the IJB and the Audit and Risk Committee.</p> <p>A financial plan was for 2019/20 on 28 March 2019 based on indicative budget offers from both NHS Lothian and East Lothian Council.</p> <p>Internal Audit report on Budget Monitoring received reasonable assurance.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>6 Governance and transparency</p> <p>The Integration Scheme requires the IJB to produce, with the help of its partners, a joint workforce development support plan which is intended to support the IJB's Strategic Plan. The workforce plan is still in development.</p> <p>There is a risk that without a workforce plan, the IJB may not be able to adequately deliver its strategic objectives.</p>	<p>Workforce plan to be in place by March 2019.</p>	<p>Satisfactory</p> <p>IJB Workforce Plan presented to the board in May 2019. The process for developing the Workforce Plan was subject to internal audit in March 2019 and concluded that of the five assessment control objectives three were assessed as 'significant assurance' and two as 'moderate assurance'.</p> <p>Going forward, Chief Officers from the four Lothian Partnerships are to progress ongoing collaboration in the four related work streams –General Medical Services implementation; Digital Enablement; Recruitment and Retention (including with third and independent sector providers); Learning and Development.</p>
<p>7 Governance and transparency</p> <p>The IJB recently approved its Risk Management Strategy and Policy and continues to develop its risk management arrangements. The IJB is still considering how best to identify and mitigate those operational risks for the partners that are also strategic risks for the IJB. This could impact on the IJB's ability to deliver its strategic plan.</p> <p>There is a risk that current IJB risk management arrangements may fail to capture and report the operational risks being managed by partners that are also strategic risks to the IJB.</p>	<p>IJB Risk Register reviewed and updated through Audit & Risk Committee.</p>	<p>Satisfactory</p> <p>Members have been consulted on the IJB Risk Register during 2018/19.</p> <p>An updated Risk Register was presented to the IJB in June 2019 including a 'show and tell' presentation of how the process works. This session was beneficial to both members and officers.</p> <p>Only items that affect delivery of IJB's strategic objectives will feature with operational risks featured in the partner's risk registers and this is deemed appropriate.</p>
<p>8 Value for money</p> <p>It is a statutory requirement for the IJB to demonstrate that it is delivering best value by assessing and reporting on economy, efficiency, effectiveness and equality in service provision, in line with the Scottish Government Best Value Framework.</p> <p>There is a risk that the IJB is not complying with best value reporting requirements.</p>	<p>The IJB meetings are formally reported to, and minuted.</p>	<p>Unsatisfactory</p> <p>Performance report does not specifically set out how the IJB is achieving / meeting its best value duties.</p> <p>Refer Appendix 1, action plan point 3.</p>

Appendix 3

Summary of national performance reports 2018/19

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

Reports relevant to Integration Joint Boards

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

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

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

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

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

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

East Lothian Integration Joint Board

2018/19 Annual Audit Report

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