

Edinburgh Integration Joint Board

2018/19 Annual Audit Report to members of
Edinburgh Integration Joint Board and the
Controller for Audit

September 2019

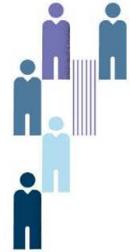




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1. Key messages

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Annual accounts audit

Edinburgh Integration Joint Board's (the IJB's) annual accounts for the year ended 31 March 2019 were approved by the Board on 3 September 2019.

We intend to report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters and that there are no matters which we are required to report by exception.

Wider scope audit

Financial sustainability

The IJB continues to face significant financial pressures, both immediate and medium to longer term. Recurring financial balance cannot be achieved without the delivery of a sustainable transformational change.

The Board has considered high level projections for the next five-year period. Projections forecast savings gaps of £29million in 2020/21, increasing to £76.4 million in 2023/24. There is now an urgent need to work with partners to develop a strategic approach to financial planning in both the immediate and medium to longer term.

Financial management

The IJB was able to breakeven in 2018/19 but relied on non-recurrent funding from partners to address continuing areas of overspend.

As reported to the Board in June 2019, the 2019/20 financial plan remains unbalanced by £7.1 million despite a challenging efficiencies programme and the release of unallocated reserves. The IJB is continuing to work with partner bodies to address the funding gap.

Governance and transparency

The Board initiated an external review of their governance arrangements in 2018/19. This concluded that further action was required to strengthen governance and identified a series of 18 recommendations. Key priorities are a review of existing committee structures, which has been completed, and the development of a Governance Handbook.

The Progress Review of the Joint Inspection of Older People's Services was critical of the partnership's progress in addressing recommendations and the pace of improvement, assessing that good or reasonable progress had only been made for three out of the 17 recommendations raised in May 2017.

Value for money

The IJB is continuing to develop and embed a robust performance management framework. The establishment of a Performance and Delivery Committee in June 2019 is a key step in achieving this and we will continue to monitor progress in 2019/20.

The IJB continues to perform poorly against a number of key indicators including delayed discharges. The IJB has recognised these areas of underperformance and is intending to address these through implementation of the Strategic Plan 2019-22.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2019



2. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Edinburgh IJB for 2018/19.

We carry out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

At Edinburgh IJB, we have designated this year the Board as “those charged with governance”.



Introduction

1. This report summarises the findings from our 2018/19 audit of Edinburgh IJB
 - an audit of the 2018/19 annual accounts;
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:
 - a review of the IJB's arrangements for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The IJB are responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We would like to thank all members of the IJB's management and those members of staff from the Partnership, Council and NHS who have been involved in our work, for their co-operation and assistance during our audit.
5. We have complied with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

Adding value through the audit

7. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the IJB through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Confirmation of independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.



Feedback

8. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX.
9. While this report is addressed to the IJB, it will also be published on Audit Scotland's website www.audit-scotland.gov.uk.



3. Annual Accounts

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

In this section we summarise the findings from our audit of the 2018/19 annual accounts.



Annual Accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2019 were approved by the Board on 3 September 2019. We report unqualified audit opinions within our independent auditor's report.

Overall Conclusion

An unqualified audit opinion on the annual accounts

10. The annual accounts for the year ended 31 March 2019 were considered by the Board on 3 September 2019. We report within our independent auditor's report:
 - An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.
11. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

12. We received unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to the Chief Finance Officer and the Finance team at City of Edinburgh Council for their assistance.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 2.



Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2018/19 External Audit Plan

14. We have not identified any indication of management override in the year. We have reviewed the IJB's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the IJB could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

15. At the planning stage we concluded that for contributions received from the IJB's funding partners, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. This position has been reviewed throughout the audit and our conclusion remains appropriate.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2018/19 External Audit Plan

16. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the IJB's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.



Our application of materiality

17. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
18. Our initial assessment of materiality for the financial statements was £10million. On receipt of the 2018/19 unaudited annual accounts, we reassessed materiality and concluded that this level remained appropriate.
19. Our assessment of materiality is set with reference to gross expenditure and equates to approximately 1.6% of the IJB’s 2018/19 gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

Performance materiality

20. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
21. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds are set out in the table below:

	Area risk assessment		
	High	Medium	Low
Performance materiality	4.5	5.5	7.0

22. We agreed with the Audit and Risk Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of 2% of the overall materiality figure, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

Audit differences

23. We are pleased to report that there were no material adjustments or unadjusted differences to the unaudited annual accounts.

An overview of the scope of our audit

24. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in March 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the IJB. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
25. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
26. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

27. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:
 - Reviewing minutes of relevant meetings;
 - Enquiring of senior management the position in relation to litigation, claims and assessments; and
 - Performing detailed testing of transactions and balances.
28. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.



Other matters identified during our audit

29. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

30. As part of our audit we reviewed the IJB's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10¹ as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

Management commentary

31. The Local Authority Accounts (Scotland) Regulations 2014 require local authority bodies to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.
32. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

Annual Governance Statement

33. The Annual Governance Statement discloses the rationale for internal audit's 'red'-rated opinion and other areas of weakness during the year, such as the outcome from the Good Governance Institutes review and the areas of concern raised by the joint inspection of services for older people progress report. Subject to the concerns disclosed, the IJB deemed that reasonable assurance can be placed on the effectiveness and adequacy of the systems of governance.
34. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and that report has been

prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016.

Remuneration report

35. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Qualitative aspects of accounting practices and financial reporting

36. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

¹ Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.



Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the IJB.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the IJB will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.



4. Financial sustainability

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



The IJB continues to face significant financial pressures, both immediately and over the medium to longer term. Recurring financial balance cannot be achieved without the delivery of sustainable transformational change. The ability to deliver significant change on this scale within available resources will be a key challenge for the Board.

The Board has considered high level projections for the next five year period, which include the recently approved savings and recovery plan. The projections forecast a savings gap of £29 million in 2020/21, increasing to £76.4 million in 2023/24. There is now an urgent need to work with partners to develop a strategic approach to financial planning in both the immediate and medium to longer term.



Significant audit risk

37. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

The IJB has been able to demonstrate arrangements for short term financial planning and developed a high-level financial outlook which sets out the scale of the challenge. However, the IJB has not yet developed a medium or long-term financial plan or strategy. The IJB recognises that it faces significant challenge over the medium term due to increasing demand for services and a climate of constrained financial resources.

The indicative financial settlement for 2019/20 would require the IJB to identify a saving of £29.1 million across all delegated services. High level financial projections predict a gap of £116 million by 2022-23. There is an urgent need to work with partners to develop a strategic approach to financial planning. Without a medium-term financial plan in place, the IJB cannot demonstrate how it will deliver the required level of savings and key priorities within the financial resources available.

Excerpt from the 2018/19 External Audit Plan

38. We have reviewed the financial monitoring reports presented to the IJB alongside assurance and supporting documentation provided by the City of Edinburgh Council and NHS Lothian. While the IJB has prepared a high-level financial outlook which sets out the scale of the challenge, the Board has not yet developed a medium or long-term financial plan or strategy. The IJB has committed to present this to the Board by December 2019, following the expected approval of the Strategic Plan 2019-22 in September 2019.
39. The Board needs leadership and financial support from partner bodies to be able to change the way services are delivered and achieve the savings required. Financial sustainability will therefore continue to be a significant risk in our 2019/20 audit plan

Refer to Appendix 2

Strategic Planning

40. A draft of the IJB Strategic Plan 2019-2022 was presented to the Board in December 2018 and it was agreed that a completed draft would be taken back to the Board in February 2019. However, given the emerging budgetary pressures and the status of the draft at that time, a formal extension to the existing Strategic Plan 2016-2019 was approved until the new Strategic Plan is published.
41. A revised draft was presented to the Board in March 2019 and has been released for a 3-month public consultation period. The final Strategic Plan 2019-2022 will be presented to the Board in September 2019 and, subject to the IJB's approval, will be formally published.
42. The draft Strategic Plan 2019-2022 presents a high-level strategic vision, intent and direction of travel which recognises the strategic context and necessity to change the way health and social care is delivered in Edinburgh. It seeks to drive

improvement and sets out an aspiration to redesign services through a comprehensive Change Programme.

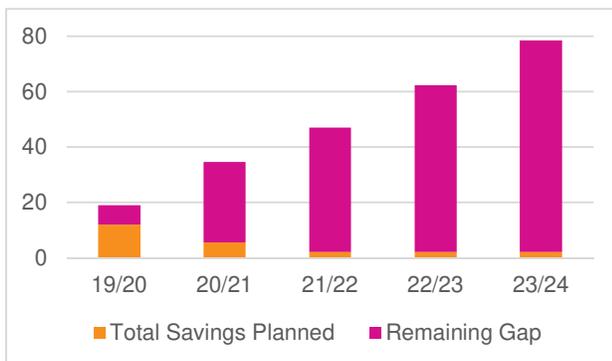
Financial Strategy

43. The draft Strategic Plan identifies that in an environment of increasing demographic pressures and growing financial challenge, the ability to redesign services in ways that makes the best use of scarce resource is critical. Given the financial constraints that City of Edinburgh Council and NHS Lothian face, both now and in the medium term, the IJB acknowledge that there will be recurring financial challenges to face.
44. The IJB's agreed approach is to focus in the immediate term on 'grip and control' measures. In the medium to longer term, the IJB aim to deliver efficiencies to support the achievement of financial balance through redesign and outputs from transformation through the change programme.



45. A medium-term financial plan is essential to support the delivery of the Strategic Plan 2019-2022. The Board approved a high-level savings and recovery plan in March 2019. As Exhibit 3 highlights, the projections outline a significant financial challenge for the Board, with a forecasted savings gap of £29 million in 2020/21 increasing to £76.4 million in 2023/24. The IJB is working with NHS Lothian and the City of Edinburgh Council to further refine the financial framework and savings plans.

Exhibit 3: Future Financial Gap (£m)



Source: IJB Development Session – May 2019

Workforce Planning

46. We highlighted within our annual report for 2016/17 that the integration scheme requires the development of a workforce plan to demonstrate that a strategic approach is in place to manage the risks that the IJB faces in relation to workforce supply and demand challenges.
47. The IJB issued Direction 19 to the City of Edinburgh Council and NHS Lothian, which required the partnership to produce and implement a workforce development strategy that supports the delivery of the strategic plan, taking account of the National Health and Social Care workplan.
48. In December 2018, an inaugural Baseline Workforce Plan was considered by the Board. This collated data and intelligence on the current workforce profile, derived from detailed interrogation of health and council payroll systems.
49. The Baseline Workforce Plan acknowledges the need for effective workforce planning to ensure that the future workforce is fit for purpose in delivering services across Edinburgh and provides focus on the nature and scale of the challenge ahead.
50. The baseline data highlights a proportionally ageing workforce, particularly in social care. Overall, 45.12% of the workforce are over the age of 50 and only 8.76% of the workforce under the age of 30.

National demographic projections indicate a reduced capacity within the working age groups which could pose significant capacity and supply problems for the IJB in the future.

51. The baseline analysis acts as a strong foundation from which to develop a strategic approach to workforce planning and the IJB has committed to developing workforce strategy in 2019. Whilst action is being taken, the development of the Strategic Plan 2019-2022 has delayed progress and further work is still required to develop an integrated workforce plan in line with the integration scheme.

Refer to Appendix 2

Impact of EU withdrawal

52. Audit Scotland has highlighted EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified;
- Workforce;
 - Funding; and
 - Regulation.
53. The Partnership has established a Brexit Impact Assessment Group to plan, assess risk and propose mitigating options for areas expected to be most affected. The Group reports into similar strategic groups within both NHS Lothian and City of Edinburgh Council to ensure issues are managed in a timely, effective and collaborate manner.
54. The Partnership has identified six key risks (Exhibit 4) and is currently working with services teams to discuss and capture concerns and mitigating controls.

Exhibit 4: EU Withdrawal key risks

Workforce	3.5% of workforce are EU nationals
Pharmaceuticals	Availability of essential medicines
Procurement	EU sourced supplies
'British Returners'	Influx of British citizens returning to Scotland
Finance	Budget considerations for supply price increases and/or inflation
Protests	Safeguarding essential services

Source: Report to Council Leadership Team – Brexit Strategic Group



5. Financial management

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



The IJB was able to breakeven in 2018/19 but relied on non-recurrent funding from partners to address continuing areas of overspend.

The Board approved a savings and recovery plan in March 2019 and governance arrangements to identify and monitor these have improved.

As reported to the Board in June 2019, the 2019/20 financial plan remains unbalanced by £3.5 million despite a challenging efficiencies programme, the release of unallocated reserves and the use of anticipated slippage from investment monies. The IJB is continuing to work with partner bodies to address this.



Significant audit risk

55. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial management: Projected in year deficit

Delegated services reported an overspend of £7.7 million for the first 9 months of 2018/19, which was projected to rise to £10 million by the end of the financial year. At the planning stage, on-going actions were being progressed to reduce the predicted in-year deficit to achieve a year-end balanced position.

There is a risk that the IJB will not achieve the planned balanced outturn position which could have a detrimental impact on short and medium term plans for the delivery of directed services. There is also potential for underperformance to have a wider impact on longer term financial sustainability.

Excerpt from the 2018/19 External Audit Plan

56. As set out below, the IJB was able to report an in-year surplus within the annual accounts for 2018/19 as a result of additional contributions from partners totalling £10.5 million. We considered the approach the IJB has taken to financial reporting in 2018/19 and we were satisfied that the partnership approach taken to financial management across the IJB, the City of Edinburgh Council and NHS Lothian meant that overspends incurred were met by the relevant individual partner.
57. As reported to the Board in June 2019, the 2019/20 financial plan remains unbalanced by £7.1 million despite a challenging efficiencies programme and the release of unallocated funds. The IJB is continuing to work with NHS Lothian and the City of Edinburgh Council to identify further actions required to achieve a balanced budget. The projected in year deficit will therefore continue to be a significant risk in our 2019/20 audit plan

Financial performance in 2018/19

58. The IJB spent £726 million delivering health and social care services to the people of Edinburgh in 2018/19 (2017/18: £705 million). The Board achieved a surplus in 2018/19 of £1.3 million (2017/18: £4.7 million). As a result, the IJB now has reserves totalling £9.7 million.
59. However, as Exhibit 5 highlights, the surplus was achieved as a result of addition contributions from the Board's partners to meet significant continuing overspends.
60. As a result, one off contributions were agreed for 2018/19 from City of Edinburgh Council totalling £7.5 million and from NHS Lothian providing an additional £3 million.

Exhibit 5: Financial performance in 2018/19

Financial Performance	Budget £000	Actual £000	Variance £000
Health services	514,939	517,992	(2,984)
Council services	200,755	208,237	(7,482)
Gross Position	715,694	726,159	(10,466)
Non recurring health contributions	-	(2,984)	2,984
Non recurring council contributions	-	(7,482)	7,482
Reported Outturn	715,694	715,694	-

Source: Finance Update presented to the Board - May 2019



Delivering financial balance

61. The 2019/20 budget was set by the Board in March 2019. In common with other IJBs, the financial planning cycles of partner bodies have not historically aligned. In practice, this meant that the budget had to be set based on indicative proposals. An updated budget was presented to the Board in May 2019 following the receipt of formal offers of delegated budgets from both partner bodies.
62. Delegated budgets total £666 million for 2019/20, assuming the agreed release of £2.5 million from the Council's "priorities fund". Set against this funding, the projected cost of delegated services is £687 million, resulting in a budgeted deficit of £21 million.
63. The Board considered and approved a savings and recovery programme in March 2019. Despite a challenge efficiency programme identifying £11.9 million of savings for 2019/20, the financial plan for 2019/20 remains unbalanced.
64. The IJB has agreed to release the unallocated balance on reserves (£2.4 million) on a non-recurring basis to bridge the in year financial position. However, as reported to the Board in June 2019, even with these measures the financial plan remains unbalanced by £7.1 million (Exhibit 6).

Exhibit 6: Projected net position for 2019/20

	Total £000
Delegated resources	(666,004)
Anticipated cost of delegated services	687,455
Projected savings requirement	21,451
Savings programme identified	(11,941)
Contribution from reserves	(2,360)
Outstanding balance	7,150

Source: Finance Update presented to Board - June 2019

65. The reconstituted Savings Governance Board met in June 2019, chaired by the Chief Officer, to provide additional rigour and visibility of savings throughout the partnership. An updated position on the unbalanced financial plan is expected to be reported to the Board in September 2019.

Systems of internal control

66. The IJB does not hold any assets, directly incur expenditure or legally employ staff. All financial transactions of the IJB are processed through the financial systems of the council and health board. All transactions are subject to the controls and scrutiny of the respective partners, including the work performed by internal audit.
67. We sought and obtained assurances from the external auditor of City of Edinburgh Council and NHS Lothian regarding the systems of internal control used to produce the transactions and balances recorded in the IJB's annual accounts.
68. We reviewed the approved standing financial instructions and standing orders and consider them adequate for the IJB's purposes.
69. The IJB has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses in the accounting and internal control system during our audit, although we are aware of weaknesses identified by internal audit.

Key supplier dependency

70. One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations' reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.
71. The IJB does not directly incur any expenditure with suppliers. This risk is therefore managed within NHS Lothian and City of Edinburgh Council.

Prevention and detection of fraud and irregularity

72. The IJB does not directly employ staff and so places reliance on the arrangements in place within the City of Edinburgh Council and NHS Lothian for the prevention and detection of fraud and irregularities. Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by the partner bodies. Overall, we found the arrangements to be sufficient and appropriate.



6. Governance and transparency

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



The Board initiated an external review of their governance arrangements in 2018/19. This concluded that further action was required to strengthen the Board's governance and identified a series of 18 recommendations.

Key priorities are a review of existing committee structures, which has been completed, and the development of a Governance Handbook, which is still in progress.

The Care Inspectorate and Healthcare Improvement Scotland undertook a progress review following their joint inspection of older people's services (May 2017). Their report was critical of the partnership's progress and pace of improvement, assessing that good or reasonable progress had only been made for three out of 17 recommendations



Significant audit risk

73. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Governance and transparency: Recovery plan

During 2017/18 the interim management team for the Edinburgh Health and Social Care Partnership (the group overseeing operational delivery of the IJB's directions to its partners) considered that there was a clear requirement to bring greater clarity and focus to the activities of the partnership, with an emphasis on performance, quality and finance. At its development session on 13 October 2017 the IJB considered a 'Statement of Intent' setting out:

'a high-level recovery plan to address the immediate, short and medium-term challenges faced by the Partnership, the EIJB and the parent bodies. It is constructed around the three key pillars of quality, performance and finance.'

The recovery plan outlined the following seven high-level themes as well as related commitments:

- Doing the basics well
- Developing a performance framework
- Establishing a financial framework
- Developing strategies, with identifiable, management actions
- Ensuring optimum quality
- Clarifying and simplifying governance arrangements
- Improving relationships between the IJB and its partner

As reported in our 2017/18 Annual Audit Report, key steps for delivery have been outlined but progress against the Statement of Intent has not been formally considered by the Board. As a result, we considered it too early to conclude on progress against the recovery plan and will continue to recognise this as a significant risk in 2018/19.

The IJB has recognised that without a clear roadmap to work with, it cannot bring clarity to the partnership's activities, nor can the partnership support the IJB in effectively discharging its duties. This in turn would lead to suboptimal performance and quality, and financial imbalance.

Excerpt from the 2018/19 External Audit Plan

74. Progress against the recovery plan had not been separately and formally reported since December 2017. The Improvement Plan identified 60 actions mapped against the key priorities of the Statement of Intent. Key actions were integrated into the Plan for Immediate Pressures and Longer-Term Financial Sustainability (May 2018) and subsequently integrated into the Transformation Programme. Initially there was limited accountability or reporting on progress and a lack of clear focus. However In May 2019 a new Improvement Plan was approved by the Board which was developed within the framework of the Three Conversations approach and reflected the revision of the Edinburgh Health and Social Care Partnership draft strategic plan 2019/2022. The implementation of this improvement plan should now be taken forward and progress reported on a regular basis.
75. We note below that an external assessment of the IJB's governance arrangements was undertaken in the year, identifying a series of 18 recommendations. We therefore



continue to regard the recovery plan and the need to bring clarity to the organisation's governance arrangements as a significant risk and will monitor progress in 2019/20.

Refer to Appendix 2

Governance arrangements

76. The IJB was formally constituted from April 2016 and is continuing to refine its governance arrangements. One of the objectives of the IJB's recovery plan is to simplify governance arrangements and clarify reporting processes.
77. To support this, the IJB initiated a review of the governance systems and processes in recognition of its growing maturity as a distinct entity. Given the extent and scope of this review, the IJB commissioned the Good Governance Institute to undertake this review, providing external and independent expertise.
78. The Good Governance Institute presented their findings to the Board in December 2018. The overall conclusion is that action is required to strengthen the Board governance. The report highlights the need for clarity on lines of accountability and reporting to support effectiveness and proposes changes to the existing committee structure.
79. The report sets out a series of 18 recommendations and highlights that the development and strengthening of the IJB's governance will be a continual process and requires the commitment of IJB members over time.
80. The report recommends the development of a Governance Handbook as a key priority for the IJB in order that committee structures, risk appetite, board etiquette and operating principles be set as a foundation as part of this review.
81. In June 2019, the Board formally approved the terms of reference for five committees of the IJB, allowing the committee cycle to commence from July 2019. The committee are as follows;
 - Strategic Planning
 - Performance and Delivery
 - Audit and Assurance
 - Clinical and Care Governance
 - Futures
82. The Board approved an outline of the proposed content and focus of the Handbook in June 2019.

This will be developed with Board members and further support from the Good Governance Institute.

Openness & Transparency

83. There is an increasing focus on how public money is used and the outcomes that it helps to achieve. Due to this it is important that public bodies operate in a transparent manner and consider potential actions which can continuously improve transparency.
84. We found that the IJB has clear arrangements in place to ensure that members of the public can attend the board meetings as observers and that agendas are available five working days in advance of the meetings.
85. We noted that the IJB does not make audit committee papers available on their website, although minutes are available through the board papers. Through the current review of governance arrangements, the IJB should therefore consider whether the balance of openness is appropriate.

Joint Inspection of Older People's Services: Progress Report

86. The Care Inspectorate and Healthcare Improvement Scotland carried out a joint inspection of older people's services in health and social care across Edinburgh, publishing a report in May 2017. The IJB developed an improvement plan from the findings and 17 recommendations made in the report.
87. In June 2018, the Care Inspectorate and Healthcare Improvement Scotland undertook a progress review. Their report was published in December 2018 and was critical of the partnership's progress and the pace of improvement. Of the 17 recommendations raised in May 2017, progress was assessed as follows;
 - Good progress – one recommendation;
 - Reasonable progress – two recommendations;
 - Limited progress – twelve recommendations;
 - Poor progress – two recommendations.



88. The IJB has developed a revised Improvement Plan which addresses each recommendation by including a statement of aims and targets based on year 1, year 3 and year 5. The Plan establishes how these will be achieved and how they will be monitored. The Improvement Plan was approved by the Board in May 2019 and is currently being considered and ratified at the NHS Lothian Healthcare Governance group and the CEC Corporate Policy and Strategy Committee.

89. We will continue to monitor progress against the Improvement Plan in our 2019/20 audit.

Health and Social Care Integration – Update on Progress

90. Audit Scotland published a report “*Health and Social Care Integration – Update on Progress*” in November 2018. The aim of the audit was to “explore the impact public bodies were having on integration of health and social care services”.
91. The report identified that generally integration authorities are delivering services in a more collaborative way, however they continue to operate in a challenging environment and financial planning could be further streamlined. Further work is required with regards to strategic planning, collaborative leadership, governance arrangements and data sharing.
92. Audit Scotland identified six key recommendations to support integration authorities in fully integrating health and social care (Exhibit 7). The IJB has identified a number of current activities they are undertaking that relate to these recommendations. They acknowledge however that further work is required and an update will be presented to the Board in due course. We will continue to monitor the IJB’s progress in addressing these recommendations in our 2019/20 audit.

Exhibit 7: Health and Social Care Integration recommendations

1. Commitment to collaborative leadership and building relationships
2. Effective strategic planning for improvement
3. Integrated finances and financial planning
4. Agreed governance and accountability arrangements
5. Ability and willingness to share information
6. Meaningful and sustained engagement

Source: Audit Scotland: Health and social care integration: update on progress – November 2018

93. In February 2019 a Scottish Government Ministerial Strategic Group published a report on health and social care. The report noted evidence of some good progress in local systems but also that the pace and effectiveness of integration needed to increase. The report made 25 recommendations and provided a self assessment template which the IJB completed and was submitted to the Board in May 2019.

Internal Audit

94. The City of Edinburgh Council internal audit team provides the IJB’s internal audit service and Chief Auditor of City of Edinburgh Council has been appointed as the Chief Internal Auditor for the IJB.
95. To avoid duplication of effort and to ensure an efficient audit process we have taken cognizance of the work of internal audit throughout our audit. While we have not placed formal reliance on the work of internal audit in 2018/19, we have taken account of internal audit’s work in respect of our wider scope responsibilities. We are grateful to the internal audit team for their assistance during the course of our work.
96. In her Annual Opinion, the Chief Internal Auditor notes that significant enhancements are required to the IJB control environment and governance and risk management frameworks. As a result, internal audit provided a ‘red rated opinion’ (significant enhancements required) and deemed there to be significant weaknesses that put the achievement of organizational objectives at risk.
97. Internal audit’s opinion is based on the outcomes of four audits included in the IJB’s 2018/19 Internal Audit Plan; the outcomes of relevant Partnership reports referred to the IJB by the relevant Audit Committees; and the status of open internal audit findings.

Standards of conduct

98. In our opinion, the IJB’s arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.
99. The IJB implemented a code of conduct based on the template code provided by Scottish Government and the codes in place at the partner organisations. In line with the integration scheme, the IJB utilizes the financial governance arrangements in place within the partner bodies including fraud management arrangements



7. Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the IJB's own reporting of its performance.



The IJB is continuing to develop and embed a robust performance management framework. The establishment of a Performance and Delivery Committee in June 2019 is a key step in achieving this and we will continue to monitor progress in 2019/20.

The IJB continues to perform poorly against a number of key indicators including delayed discharges. The IJB has recognized these areas of underperformance and is intending to address these through the implementation of the Strategic Plan 2019-22.



Significant audit risk

100. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Value for money: Performance

Under the integration scheme, the IJB is responsible for implementing a comprehensive performance management system that allows for transparent reporting and appraised achievement against the strategic plan. One of the key strands outlined in the IJB's Statement of Intent is the development of a performance management framework.

As reported in our 2017/18 Annual Audit Report, the IJB has developed metrics that will be reported to every meeting of the Board. However, further work is still required to fully develop the performance management framework. In May 2018, the Board agreed to suspend the work of the Performance and Quality Sub-Group with the understanding that an external review of governance arrangements would be completed by 2018. As reported to the IJB in December 2018, the review concluded that responsibility for performance management was unclear and that governance arrangements required further development.

Without a clear, effective performance management framework in place there is a risk that the IJB cannot demonstrate continual improvement of services delivered and the achievement of value for money through appropriate use of resources.

Excerpt from the 2018/19 External Audit Plan

101. In June 2019, the Board approved a new committee structure including the establishment of the Performance and Delivery Committee, ensuring that responsibility for performance management is clearly allocated. The committee's core duties are still to be developed and will form the basis of the IJB's performance management framework, along with the developing Governance Handbook. We continue to regard the performance management framework as a significant risk and will monitor the key actions taken in 2019/20.

Performance Framework

102. Under the integration scheme, the IJB is responsible for implementing a comprehensive performance management system that allows for a transparent reporting and appraises achievement against the strategic plan. One of the key strands outlined in the IJB's Statement of Intent is the development of a performance management framework.
103. In 2017/18 we reported that work had focused on the development of metrics that will be reported to every meeting of the IJB; however further work was still required to fully develop the performance management framework.
104. In May 2018, the Board agreed to suspend the work of the Performance and Quality Sub-Group and to temporarily refer its performance monitoring role to the Strategic Planning Group. An external review of governance arrangements was undertaken in 2018/19 and the IJB has reviewed its committee structures as a result.
105. In June 2019, the Board approved the terms of reference for a Performance and Delivery committee as part of the new governance structure. The purpose and function of this committee is to;
- Provide assurance that the IJB is meeting commitments;
 - Oversee a performance and progress reporting framework and supporting processes
 - Receive progress reports from accountable officers on finance, duty of care, quality, variations and other relevant matters.
106. Core duties will be developed by the committee and approved by the IJB at a future meeting.



107. The establishment of a Performance and Delivery Committee with a clear purpose and remit is a key step in developing a robust performance management framework. We will continue to monitor progress in 2019/20.

Refer to Appendix 2

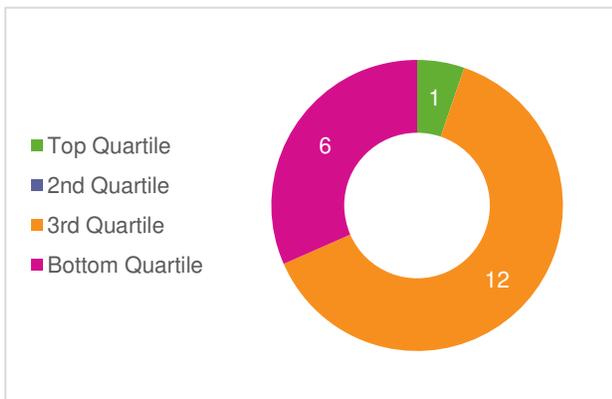
Performance during 2018/19

108. In line with the requirements of the Public Bodies (Joint Working) Act 2004, the IJB prepares an annual public performance report that considers progress against both the nine National Health and Wellbeing Outcomes and the key priorities identified within their strategic plan.

109. The performance report compares the IJB’s performance against 19 core national indicators to the Scottish average. The report also highlights how the IJB ranks compared to other authorities. As Exhibit 8 demonstrates, performance continues to be mixed.

- Percentage of adults supported at home who agreed that they had a say in how their help, care or support was provided.
111. The IJB has acknowledged areas of poor performance and is intending to address them through the implementation of the Strategic Plan 2019-2022. We will continue to monitor progress in 2019/20.

Exhibit 8: Edinburgh IJB performance against the core national indicators



Source: draft Edinburgh IJB Annual Performance Report 2018/19

- For six of the 19 indicators (32%) performance improved compared to prior year. The report highlights that the IJB performs strongly against one indicator and is ranked 2nd for : Emergency admission rates.
110. A number of areas show poor performance and the IJB is ranked between 29th and 31st for:
- Proportion of last 6 months of life spent at home or in a community setting;
 - Number of days people spend in hospital when they are ready to be discharged; and



8. Appendices





Appendix 1: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual accounts

The Board is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Chief Financial Officer has been designated as that officer within the IJB.

The Chief Financial Officer is responsible for the preparation of the annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Chief Financial Officer is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of the affairs of the body as at 31 March 2019 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code;
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit.



Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Best value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the IJB's best value arrangements has been integrated into our audit approach, including our work on the wider scope audit dimensions.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, IJB and senior management that may reasonably be thought to bear on our objectivity and independence.



Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist IJB in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.



Follow up of prior year recommendations

We deem all five open recommendations raised within our 2016/17 and 2017/18 annual audit reports to be ongoing. Details are given below.

1. Medium term financial plan

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>The IJB is forecasting a funding shortfall at current services levels of almost £117 million by 2022-23</p> <p>Recommendation</p> <p>The IJB should develop a Medium Term Financial Plan to support the delivery of the vision and priorities within the updated Strategic Plan for 2019-22.</p>	<p>Accepted.</p> <p>Responsible officer: Chief Finance Officer</p> <p>Implementation date: March 2019</p>
Current status	Audit Update	Management response
Ongoing	<p>The IJB has committed to present the Medium Term Financial Plan to the Board in December 2019 following the approval of the Strategic Plan 2019-2022.</p>	<p>This is on-track for delivery in December 2019. In the interim, the board has been briefed on the emerging medium term financial outlook at development sessions in May and September 2019.</p>

2. Assurance Framework

Initial rating	Issue & recommendation	Management comments
Grade 2	<p>Observation</p> <p>During our audit, we noted a number of areas where there was a lack of clarity of requirements for reporting and monitoring performance and improvement plans.</p> <p>We noted that the Board has committed to reviewing the governance arrangements during 2018.</p> <p>Recommendation</p> <p>As part of a review of governance arrangements, the Board should consider the introduction of an Assurance Framework to ensure that Board members share an understanding about assurance needs and sources.</p>	<p>Accepted.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: March 2019</p>
Current status	Audit Update	Management response
Ongoing	<p>The IJB is currently developing a Governance Handbook to clarify governance arrangements, assurance needs and key sources of assurance. We recommend this is developed as a priority in 2019/20.</p>	<p>Not applicable</p>



3. Recovery Plan

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>We noted that reporting on the Improvement Plan is predominantly narrative in nature and it may therefore be difficult for Board members to scrutinise the scale and pace of improvement.</p> <p>Recommendation</p> <p>The Board should ensure that action plans to deliver improvement actions are;</p> <ul style="list-style-type: none"> - Reported on a regular basis, using succinct format which include a clear assessment of progress against actions - Framed in SMART terms 	<p>Accepted.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: January 2019</p>
Current status	Audit Update	Management response
Ongoing	<p>Key actions from the Improvement Plan were integrated into the Plan for Immediate Pressures and Longer-Term Financial Sustainability (May 2018) and subsequently into the Transformation Programme (February 2019). Initially there was limited accountability or reporting on progress and a lack of clear focus. However In May 2019 a new Improvement plan was approved by the Board which was developed within the framework of the Three Conversations approach and reflected the revision of the Edinburgh Health and Social Care Partnership draft strategic plan 2019/2022.</p> <p>In June 2019, the Board established a Performance and Delivery Committee. The purpose of the committee is to monitor performance, ensure delivery of commitments and receive progress reports from accountable officers on operational matters.</p> <p>Further work is required to embed the role of the committee and ensure regular progress reporting.</p>	<p>Agree . Regular reports on progress against the Improvement Plan will be submitted to the appropriate IJB committee</p>



4. Performance

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>The IJB's performance against a number of key indicators continues to fall below target, despite intervention actions to date. A vision for the future has been set out in the Statement of Intent but strategic support is needed from the Board's partners to deliver transformational change.</p> <p>Recommendation</p> <p>The Board should work with partners to ensure that sufficient financial and leadership capacity is available to deliver sustained improvement</p>	<p>Accepted.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: Ongoing</p>
Current status	Audit Update	Management response
Ongoing	<p>A number of areas showed poor performance in 2018/19. The IJB is continuing to work with partners to support the delivery of sustainable improvement.</p> <p>The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focused scrutiny and regular progress updates. We will continue to monitor progress.</p>	Not applicable



5. Workforce planning

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>The integration scheme requires the IJB to develop an integrated workforce plan for the city.</p> <p>The IJB has not yet developed an integral workforce plan, and as a result is not meeting the requirement of the integration scheme. Without a documented plan in place, the IJB cannot demonstrate that a strategic overview is being taken over the risks the city faces in relation to workforce supply and demand challenges, communication, staff engagement and training needs to support the implementation of the strategic plan.</p> <p>Recommendation</p> <p>The IJB should develop an integrated workforce plan for the city.</p>	<p>This is captured in the 2016-17 directions issued to CEC and NHS Lothian. Direction 19 requires:</p> <p>”the City of Edinburgh Council and NHS Lothian are directed to work with the Edinburgh Health and Social Care Partnership to:</p> <ol style="list-style-type: none"> produce and implement a workforce development strategy that supports the delivery of the strategic plan; taking account of the National Health and Social Care Workforce Plan; ensure that any business cases developed in relation to the strategic plan clearly set out any ICT implications.” <p>Responsible officer: Chief Nurse</p> <p>Implementation date: Initial workforce strategy will be presented to IJB in December 2018.</p>
Current status	Audit Update	Management response
Ongoing	<p>A baseline workforce plan was presented to the Board in December 2018, providing detail on the current workforce profile. The baseline acts as a strong foundation from which to develop a strategic approach to workforce planning. The IJB has committed to developing a workforce strategy in 2019.</p> <p>Given the challenges identified within the baseline workforce plan, the IJB should develop a workforce strategy as a priority.</p>	<p>Agreed. Development of a workforce strategy is a key element of the IJB’s change programme.</p>

