



# Perth and Kinross Integration Joint Board

Annual Audit Report to the Members of Perth and Kinross Integration Joint Board and the Controller of Audit  
for the year ended 31 March 2019

27 September 2019

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## **About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Perth and Kinross Integration Joint Board ("the IJB") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries").

This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

## **Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to the IJB, telephone 0141 300 5890, email: Michael.Wilkie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG, by telephoning 0131 527 6682 or email hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

# Executive summary

## Audit conclusions

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We intend to issue an unqualified audit opinion on the annual accounts of Perth and Kinross Integration Joint Board ("the IJB") following their approval by the IJB on 27 September 2019.

We identified two significant risks in the audit of the IJB, which relate to fraud risk from management override of controls and fraud risk from revenue and expenditure recognition, (the latter of which was rebutted). As documented on pages ten and 11, we have concluded satisfactorily in respect of the significant risks and audit focus areas identified in the audit strategy document.

The annual accounts, governance statement and remuneration report were received at the start of the audit fieldwork. We have no matters to highlight in respect of adjusted audit differences or our independence.

## Financial management and financial sustainability

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The financial plan approved in June 2018 showed a £0.9 million shortfall and the IJB did not set a balanced budget.

The IJB faces ongoing financial pressures due to salary costs, price pressures and increasing demand for services. We remain satisfied that the IJB is a going concern as a result of the integration scheme and the financial sustainability of the partners.

We are satisfied that the ongoing production of a three year revenue budget will help the IJB plan for future pressures, and will enable management to have valuable conversations when discussing future budget settlements. We consider the arrangements regarding financial management are effective.

## Financial position

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The IJBs final outturn was an overspend against budget of £1.1 million for the year. Funding changes were made after the final outturn were agreed, such that increased funding was received from NHS Tayside and Perth and Kinross Council in order to deliver a break even position against budget. Associated with specific funding, the IJB increased its reserves from £nil to £2.5 million.

The integration scheme states that in the event of an overspend from 2018-19, the partners can opt to allocate the overspend on a proportional basis. The partners informally agreed to fund overspends for which they have operational responsibility in 2018-19.

## Governance and Transparency, and Value for money

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The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board.

The annual performance report shows significant improvement with most of the indicators above the national average.

# Scope and responsibilities

### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Perth and Kinross Integration Joint Board (“the IJB”) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the IJB and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit and Performance Committee on 6 March 2018.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration areas such as financial performance and corporate governance.

### Accountable officer responsibilities

The Code sets out the IJB’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) (“ISAs”) issued by the Financial Reporting Council and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements 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.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to the Audit and Performance Committee, together with previous reports to the audit and performance committee throughout the year, discharges the requirements of ISA 260.

# Financial position

### Overview

The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that integration joint boards should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the IJB should therefore be prepared in accordance with the 1973 Act and the 2018-19 Code of Practice on Local Authority Accounting in the United Kingdom (“the CIPFA Code”).

The Board is responsible for the strategic planning and delivery of health and adult social care services in Perth and Kinross. The Integration Scheme sets out those services the Board has delegated responsibility for, which includes ‘hosted’ services which are provided by the IJB on behalf of the other integration joint boards in the Tayside region, Dundee City and Angus.

### IJB financial management overview

The IJB budget process begins in September each year with final approval by March in advance of the financial year. Delegated baseline budgets for 2018-19 were compared to actual expenditure in previous years in order to build up the budget. Detailed forecasts have been prepared of anticipated salary, price and demand pressures along with the cost of meeting legislative changes and planned service developments.

In 2018-19, the IJB participated in the PKC budget process in order to commence early discussion over funding and anticipated expenditure pressures. This communication and co-operative working supports the long-term aims of the integration of health and social care.

The Perth and Kinross IJB Financial Plan 2018-19 approved in June 2018 showed a shortfall of £0.9 million, and therefore the IJB failed to set a balanced budget.

Legislation empowers the Board to hold reserves. The integration scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. Financial management is discussed further on page 15.

During 2018-19, the IJB had an overspend of £1.1 million. The integration scheme states how overspends are resolved and a result was funded from NHS Tayside and PKC in order to break even against budget (see page six). The final accounting position shows a surplus of £2.5 million which increased the general fund reserve.

Funding contributions from Perth and Kinross Council  
£51.7 million

Funding contributions from NHS Tayside  
£153.9 million

Gross expenditure  
£203.1 million

Surplus on provision of services  
£2.5 million

This reserve is held within the IJB, and is retained for use in future years for application against spending commitments. Management have earmarked these reserves for 2019-20, and is discussed further on page 17.

The Board does not have any fixed assets, nor does it directly incur expenditure or employ staff. The Chief Officer and the Chief Financial Officer are appointed officers of the IJB. All funding and expenditure is delegated to the partner organisations and is recorded in the partner organisation’s accounting records.

# Financial position (continued)

## 2018-19 financial position

The annual accounts are prepared on a going concern basis. A deficit of £1.1 million was reported in the final outturn in June 2019 for the year ended 31 March 2019. The integration scheme states that ‘In the event that an overspend is evident following the application of a recovery plan, use of reserves or, where the Strategic Plan cannot be adjusted, the following arrangements will apply:-

- First 2 financial years of the Integration Joint Board - the overspend will be met by the Partner with operational responsibility unless agreed otherwise through a tripartite agreement between the Integration Joint Board and the Partners;
- 3rd financial year of the Integration Joint Board onwards – the overspend may be allocated based on each Partner’s proportionate contribution to the Integration Joint Board’s Budget Requisition for that financial year on a like for like basis.’

An underlying overspend of £0.3 million was reported against health services where operational responsibility lies with NHS Tayside. Against social care budgets, where operational responsibility remains with Perth and Kinross Council (“PKC”), an overspend of £0.8 million was reported. In line with the integration scheme, both NHS Tayside and PKC devolved further non-recurring budget to the IJB to balance income with expenditure in order to break even against budget on an operational responsibility basis.

The health overspend is made up of the following significant variances:

- Inpatient Mental Health: overspend £0.5 million. Primarily driven by medical locum costs, supplementary nursing costs, and a historic brought forward balance of undelivered savings.
- Planning and other services: overall year-end underspend of £0.7 million due to savings and cost containments.
- Prescribing: overspend of £0.8 million. Due to nationally negotiated rebates for specific drugs which was higher than expected.

The social care overspend is made up of the following significant variances:

- Older People and Physical Disability Service: overspend of £0.5 million. Primarily due to demographic growth issues and savings not being fully realised in 2018-19. This is offset by a underspend of £0.3 million on the NHS Tayside resulting in a net overspend position of £0.2 million.

Expenditure	2018-19 Budget (£M)	2018-19 Actual (£M)	(Under)/over spend (£M)
Older peoples service/physical disabilities	66.3	66.5	0.2
Learning disabilities/mental health/addictions	24.1	24.5	0.4
Planning/management/other services	7.9	7.2	(0.7)
Prescribing	26.7	27.5	0.8
General medical services	24.1	24.1	0.0
Family health services	17.4	17.4	0.0
Hosted services	21.0	21.4	0.4
Large hospital set aside	14.3	14.3	0.0
<b>Total expenditure</b>	<b>201.8</b>	<b>202.9</b>	<b>1.1</b>
<b>Additional Budget from Partner Bodies:</b>			
NHS Tayside			(0.3)
Perth & Kinross Council			(0.8)
<b>Total</b>			<b>0.0</b>
Reserves:			
Earmarked Reserves		2.5	
<b>Total Reserves</b>		<b>2.5</b>	

Source: Annual Performance Report

- Learning Disabilities and Mental Health continued to experience a sustained increase in the costs of individual care packages, partially offset by a number of one-off underspends, resulting in a net underspend position of £0.1 million.

# Financial position (continued)

### Comprehensive income and expenditure statement

As noted previously, NHS Tayside assigns some services that are devolved to an IJB (“hosted services”), rather than split it across the three IJBs for which it partners. This results in differences between the budget that management and members receive, which show the services the IJB are responsible for, and the comprehensive income and expenditure statement (“CIES”). The two therefore are not directly comparable, and the hosted services explain the significant differences between the two.

### Recurring baseline budget

In previous years the Scottish Government provided funding to IJBs across Scotland for the IJB to use to transform services, support integration and to reduce delayed discharges. However, as all IJBs have matured this is no longer funded directly from the Scottish Government, now funded as part of the IJB’s recurring baseline budget from partners from 2018-19. The recurring baseline budget for 2018-19 included a £1.5 million deduction within the PKC budget proposition and a £2 million uplift from NHS Tayside.

### Related party transactions

NHS Tayside receives the recurring baseline budget on behalf of the IJB and expenditure is drawn down through NHS Tayside. As PKC uses the baseline budget to deliver services, it invoices NHS Tayside directly for the services.

In total in the year there was a £17.9 million payment from NHS Tayside to PKC, this is included in Note 8: Related Party Transactions. This relates to funding NHS Tayside receives being redirected to Perth and Kinross Council for delivery of some social care services.

In line with other IJBs nationally, there is a requirement to recognise funding from partners, and to recognise its commissioning expenditure, in order to disclose the gross cost of providing services. The related parties note details this gross cost of providing services, and gross income received from partners.

### Balance sheet

The £2.5 million debtors balance at the year end arose through the planned build up of reserves to support future delivery of services. IJB ‘cash’ is held by the partner organisation due to the IJB not having a bank account, leading to a creditor to the IJB in the partners’ Balance Sheet. The full debtor balance is with NHS Tayside, and is expected to be used for the purpose of supporting health and social care services.

Balance sheet	2018-19 £000	2017-18 £000
Short term debtors	2,470	-
<b>Net assets</b>	<b>2,470</b>	-
Usable reserve : General fund	(2,470)	-
<b>Total reserves</b>	<b>(2,470)</b>	-

Source: Annual accounts 2018-19

# Audit conclusions

### Audit opinion

Following approval of the annual accounts by the IJB Board, we issued an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2019, and of the surplus for the year then ended.

There are no matters identified on which we are required to report by exception.

### Financial reporting framework, legislation and other reporting requirements

The IJB is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.

### Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

### Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

### Audit misstatements

There were no misstatements identified during the audit. There were a number of presentational and disclosure adjustments made by management as a result of our audit.

### Written representations

Our representation letter will not include any additional representations to those that are standard as required for our audit.

# Materiality and summary of risk areas

### Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £1.9 million for the IJB's financial statements. This equates to 0.9% of cost of services expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the IJB, our performance materiality was £1.4 million. We report all misstatements greater than £95,000.

### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Internal Auditor, who provides internal audit support to the IJB, and reviewed internal audit reports as issued to the Audit and Performance Committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended Audit and Performance Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

### Financial statements preparation

Draft financial statements were published online in line with Section 195 of Local Government (Scotland) Act 1973, this included the management commentary and annual governance statement.

In advance of our audit fieldwork we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. We received working papers of good quality, and draft financial statements were provided on 28 June 2019, including the management commentary and the remuneration report.

### Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks (page ten of this report):

- management override of controls fraud risk.

Other focus areas (page 11 of this report):

- completeness and accuracy of expenditure; and
- financial sustainability (also a wider scope area).

Wider scope areas (page 14 of this report):

- financial sustainability;
- financial management;
- value for money; and
- governance and transparency.

# Significant risks

Significant risk	Our Response	Audit approach
<b>Financial statement risks</b>		
<p><b>Fraud risk from management override of controls*</b></p> <p>Professional standards (ISA 240 The Auditor’s responsibilities relating to fraud in an audit of financial statements) require us to communicate the presumed fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>– Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Board.</li> <li>– Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</li> <li>– In line with our methodology, we will carry out appropriate substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation’s normal course of business, or are otherwise unusual.</li> </ul>	<p><i>Our work did not identify any control overrides, or matters that required adjustment in the annual accounts or which require to be brought to your attention.</i></p>
<p><b>Fraud risk from income revenue recognition and expenditure (rebutted)</b></p> <p>Professional standards (ISA 240 and Practice Note 10 (“PN10”) Audit of financial statements of public sector bodies in the United Kingdom require us to make a rebuttable presumption that the fraud risk from revenue recognition and expenditure are significant risks.</p>	<ul style="list-style-type: none"> <li>— The Board receives funding through requisitions to Perth and Kinross Council and NHS Tayside. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.</li> <li>— The Board issues directions to Perth and Kinross Council and NHS Tayside in order to direct those bodies to deliver services delegated by the Board. The Board make these directions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.</li> </ul>	<p><i>Our conclusion is that income and expenditure is appropriately stated, in line with the CIPFA Code.</i></p>

\* We set out above the significant risk identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

# Other focus areas



Other focus area	Our response	Audit approach
<b>Financial statement focus area</b>		
<p><b>Completeness and accuracy of expenditure</b></p> <p>The Board receives expenditure forecasts from Perth and Kinross Council and NHS Tayside as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding requisition income is not correctly captured.</p>	<ul style="list-style-type: none"> <li>Our substantive audit will obtain support for gross expenditure included in Perth and Kinross Council and NHS Tayside's accounting records. We will obtain confirmations of expenditure from each of these bodies.</li> </ul>	<p><i>We have concluded that that expenditure is appropriately recognised.</i></p> <p><i>No exceptions were identified in respect of expenditure testing and testing of high risk expenditure journals.</i></p> <p><i>Our testing of this exercise did not identify errors in expenditure cut-off.</i></p>
<p><b>Financial sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board given the challenging environment where funding is reduced and efficiency savings are required.</p>	<ul style="list-style-type: none"> <li>The Board receives funding from NHS Tayside and Perth and Kinross Council, and as part of an Integration Scheme, has a risk sharing agreement with both bodies. This agreement stipulates that, from 2018-19, any overspends by the Board may be funded by NHS Tayside and Perth and Kinross Council based on each body's proportionate contribution in the financial year, or by the body with operational responsibility as a default position. This gives the Board comfort with regards to overspends, however, there is a risk going forward regarding ongoing budget balance, specifically in the context of challenging NHS and Council budgets.</li> <li>We will consider the Board's financial planning, reserves strategy, and Board's use of reserves, concluding on the appropriateness of these in our annual audit report.</li> <li>See page 17 for further information regarding the financial sustainability wider scope.</li> </ul>	<p><i>We consider that the IJB is financially sustainable. The IJB has detailed plans in place over the medium term to consider how services will be provided in future years. These take into consideration known and expected budget pressures.</i></p>

# Management reporting in financial statements

Report	Summary observations	Audit conclusion
<b>Management commentary</b>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts.</p>	<p>The information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.</p>
<b>Remuneration report</b>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>The information contained within the revised remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made in line with the 2014 regulations.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<b>Annual governance statement</b>	<p>The statement for 2018-19 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the IJB's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework.</p> <p>We consider the annual governance statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the delivering good governance in local government framework.</p>	<p>We consider the governance framework and revised annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.</p>

# Qualitative aspects and future developments

### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by IJB to be appropriate. There are no significant accounting practices which depart from what is acceptable under the CIPFA Code.

Financial statement disclosures were considered against requirements for the CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.

There were no new accounting standards adopted by the CIPFA Code which affected the IJB.

### Accounting framework update

From 2018-19, IFRS 15 *Revenue from Contracts with Customers* replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and their associated interpretations. The core principle in IFRS 15 for public bodies is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the body expects to be entitled in exchange for those goods or services.

In addition, the adapted requirements for IFRS 9 *Financial Instruments*, which replace IAS 39 *Financial instruments: recognition and measurement* have been introduced in 2018-19. The changes included:

- a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed;
- a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39; and
- new provisions on hedge accounting.

Expected from 2019-20, IFRS 16 *Leases* supersedes IAS 17 *Leases*. IFRS 16 introduces a single lessee accounting model. Public body lessees will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases.

Given the nature of the Board we do not consider that these changes will have a significant impact on the financial statements.

## Wider scope and Best Value

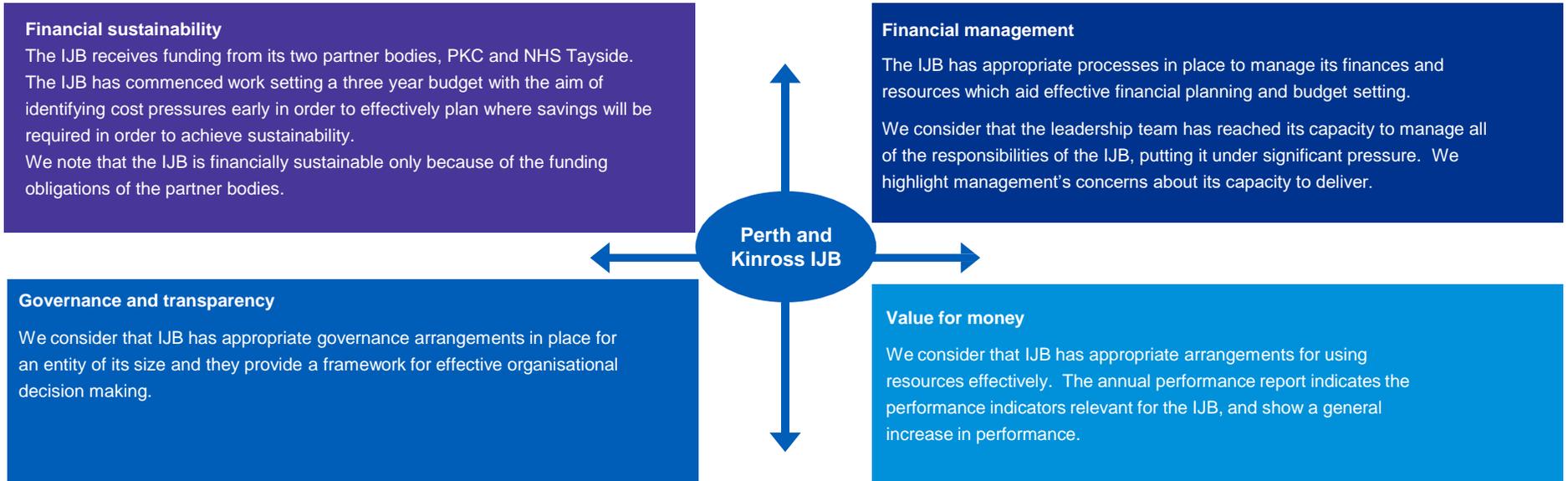
# Audit dimensions introduction and conclusions

The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability; financial management; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

During our work on the audit dimensions we considered the work carried out by other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

The Code of Audit Practice allows for an exemption from the requirement of a full wider scope of audit to apply to all bodies where the auditor judges that it is not appropriate due to size, nature and risks of the body. KPMG have selected to use this exemption.



# Financial management

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

### Budgetary controls

The IJB's financial management comes under a reasonable degree of scrutiny, with budgets monitored at IJB, local authority and NHS level.

The IJB produces a quarterly finance update which is taken to both the Board and the Audit and Performance Committee. Management reports the financial position to the IJB at each meeting throughout the financial year. This contains sufficiently detailed information to allow members to understand budget variances, and to respond to issues.

Financial reporting is provided to the IJB throughout the year and it includes financial commentary. This is performed on a regular basis, with reports going to the IJB in September, November and February, with the Audit and Performance Committee also receiving an update in February 2019. Although the 2018-19 Financial Position was included in the February 2019 meeting agenda, this meeting was rescheduled for March 2019 no finance update was presented. The year end position was reported in May 2019.

### 2019-20 budget process

The Core Health and Social Care budget for 2019-20 was approved in March 2019, prior to the start of the following financial year as required. The GP Prescribing and Other Hosted Services budget was approved on 26 June 2019, three months after the start of the financial year. At the time of this report, the Adult Mental Health budget has yet to be approved, and management indicate it will be considered by the IJB in September 2019.

This is six months from the start of the financial year. It has taken a staged approach to budget approval in respect of 2019-20, including and updating estimate budgets were considered possible. Good practice is that a local government body sets a balanced budget ahead of the financial year. We recommend that all budgets are discussed and approved prior to the start of the financial year but recognise that the IJB faces challenges working across the budget setting timetables of local authority and health bodies.

The 2019-20 budget presented for approval does not incorporate the use of reserves and associated planned expenditure. As the IJB increases the use of reserves it is important this is included in the overall budget presented to members.

### *Recommendation one*

### Financial regulations

The IJB has standing financial regulations which determine how spend can be authorised. The highest budget virement that can be approved by the Chief Officer is £10,000, with anything above that level having to go through the Board, which conducts its meetings in public. We consider this to be an appropriate level for escalation.

### Financial recovery plan

The 2018-19 Finance Update provided to the IJB in June 2018 gave an early indication of an unanticipated overspending and cost pressure. As a result, the IJB prepared and approved a Financial Recovery Plan in order to identify areas of savings and note actions to be taken to achieve these savings.

The plan was prepared in November 2018 and approved at the meeting on 15 February 2019. Whilst the integration scheme requires a deficit recovery/action plan to be approved by the Board prior to any actions implemented, management identified potential overspends early and were proactive in developing solutions collaboratively to ensure that risks were appropriately managed.

## Wider scope and Best Value

# Financial management

The Chief Finance Officer is responsible for ensuring that appropriate financial services are available to the IJB and the Chief Officer.

### Capacity and service transformation

The section 95 officer of the IJB is the Chief Finance Officer, who has appropriate status within the IJB and access to the partner chief executive officers and Board members.

A new Chief Officer was appointed effective from 1 April 2019. The Chief Officer will review current leadership and management arrangements with a view to further integration. The integrated finance function consists of the Chief Finance Officer and financial management resources transferred to Perth & Kinross Health & Social Care Partnership by NHS Tayside and Perth & Kinross Council. In addition, NHS Tayside provide finance support for specific service areas such as Prescribing, Primary Care and Inpatient Mental Health. The Partnership Finance Manager provides significant support to the day to day financial management and control within the IJB.

We note that senior management has significant concerns regarding the IJB's capacity to satisfy the full responsibilities of the IJB. Specifically there is concern in respect of being responsible for inpatient mental health services alongside the other services, and having the capacity to effectively direct the activities.

The IJB continues, through redesigning care, to analyse service expenditure in order to identify savings and efficiencies.

### Training

The Board provides induction and ongoing training for both elected members and other Board members. Attendance sheets are kept for each training meeting however members are not asked to sign in. We note that initial IJB induction and briefing session was held in June 2018. Financial development training sessions were also held throughout the year.

### Arrangements for the prevention and detection of fraud

We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the IJB's arrangements including policies and codes of conduct for council staff and elected members, whistleblowing, fraud prevention and fraud response plan.

We considered the arrangements in place for the prevention and detection of fraud to be sufficient.

### Audit Scotland focus area: Key supplier dependency

All bodies are potentially exposed to the failure of a key supplier, in an operational and infrastructure context. For the IJB, PKC and NHS Tayside are the key suppliers of services, but are unlikely to cease providing these services given the bodies' nature, purpose and role as partners to the IJB. We have commented on the financial sustainability aspects of both partners on page 17 in our capacity as auditors of the IJB, through review of the annual audit reports of both partner bodies.

### Audit Scotland focus area: Care income, financial assessments and financial guardianship

Some other local government audits indicated there may be wider issues with the systems and processes for collecting care income and undertaking financial assessments on individuals receiving care. PKC is responsible for collection of care income and processing financial assessments and there is no direct impact on the IJB.

### Conclusion

The IJB set two of four components of its 2019-20 budget in advance of 31 March 2019, which decreases the ability of members to scrutinise and hold management to account. The IJB has robust controls over the monitoring of expenditure against budget, with regular reports going to public meetings of the IJB. We recognise the increasing need for the Board to have timeous information in order to make effective and informed decisions.

Financial capacity is appropriate for the purposes of delivering services.

# 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. This is inherently a risk to the IJB given the challenging environment where funding is reduced in real terms and efficiency savings are required.**

In assessing financial sustainability we consider whether the IJB is able to balance budgets in the short term and whether longer term financial pressures are understood and are planned for, as evidenced by the IJB's financial strategies and plans.

### Budgets and financial position

The 2018-19 budget was prepared independently of NHS Tayside, but in conjunction with PKC, and management developed greater communication with the partner bodies prior to, and during budget setting.

In 2018-19, management began the process of setting a three year revenue budget which covered 2018-19, 2019-20 and 2020-21. This was updated in 2019-20 to include 2021-22. The 3 year budget for Core Health and Social Care was approved on 22 March 2019. As discussed in recommendation two, the 3 year budget for GP Prescribing and for Inpatient Mental Health has not been approved at the date of this report. A consolidated budget position has not yet been presented to the Board.

	Year 1: 2019-20	Year 2: 2020-21	Year 3: 2021-22
	Shortfall/ (Surplus) £m	Shortfall/ (Surplus) £m	Shortfall/ (Surplus) £m
Core Health and Social Care	2.842	1.054	2.029
GP Prescribing	0.752	-	-
Other Hosted Services	0.000	0.108	0.083
Inpatient Mental Health*	-	-	-
<b>Total</b>	<b>3.594</b>	<b>1.162</b>	<b>2.112</b>

\*budget not yet approved

The 2019-20 Core Health and Social Care recurring budget included a £2.2 million rolled forward pressure. Further pay/price pressures of £1.3 million, demand pressures of £4 million, and essential service developments of £0.8 million were incorporated in the final budget. The GP Prescribing and other hosted services budgets also included pressures of £2.8 million and £1.2 million, respectively.

### Reserves strategy

The IJB approved a reserves policy in March 2017 which sets out the statutory and regulatory framework for reserves, the operation of these reserves and the role of the Chief Finance Officer in determining the adequacy of reserves held by the IJB. Management aspires to retain a general fund reserve of 2% of gross expenditure, or £4.1 million. The IJB had reserves of £2.5 million at the year end, or 1.2%.

Management anticipates using the carried forward reserves for a number of projects, including primary care improvement, primary care transformation and the partnership transformation fund.

### Audit Scotland focus areas: Changing public landscape for financial management and EU withdrawal

Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits.

Scottish Government published an initial five-year Medium Term Financial Strategy in May 2018. Although delayed, the EU withdrawal is expected to take place in 2019 with possible wide impact on workforce planning and wider economic environment. For the risks presented by these areas, the IJB's primary response is to consider the actions taken by PKC and NHS Tayside, being the funders and commissioned bodies. This is an appropriate response. The primary financial changes considered relate to tax raising, which do not apply to the IJB.

Through the established risk management framework of the IJB, risks which directly impact the body are considered and managed. We note that the IJB is currently developing a workforce plan in the context of workforce and recruitment challenges, including the potential impact of Brexit. The plan was due by 31 March 2019 however, from the review of the June 2019 risk register, we note that the issue is now overdue.

### Recommendation three

# Financial sustainability (continued)

### Risk sharing

The integration scheme sets out the process to be followed should the IJB overspend against the agreed budget. The Chief Officer and Chief Financial Officer are expected to manage the budget to ensure that there are no overspends. Where an unexpected overspend is likely the Chief Financial Officer should agree corrective action to mitigate the overspend. Where this does not resolve the gap, agreement must be made between the partner bodies, in conjunction with the executive team, to agree a recovery plan to balance the budget.

Where this is unsuccessful and the IJB overspends at the year end, uncommitted reserves are applied to any overspend firstly and the remaining overspend is either met by an additional one-off payment from a partner. The integration scheme provides that for the first two years of financial operation (2016-17 and 2017-18), any overspend is met by the partner with operational responsibility.

From the third year (2018-19) onwards, the integration scheme states that any overspend may be allocated based on each partner's proportionate contribution to the IJB, and this suggests formal agreement between the partners is required. For 2019-20, we understand that there has been limited discussion between relevant partners in respect of the approach to be taken and there is no formal documentation of this arrangement.

### *Recommendation two*

This arrangement gives the IJB comfort that overspends will ultimately be met by the partner bodies. We note that it does not motivate collaborative working between the three parties. For example, overspends in a council-funded area of service may be driven by increased "high outcome" activity which delivers reduced demand in an NHS-funded area of service, given the benefits of "preventative care". There is no consideration for this in the integration scheme.

### Going concern

The annual accounts are prepared on a going concern basis. The IJB is still in its relative infancy and is at the start of plans to transform services. Both partner bodies have identified their financial challenges and put in place savings plans. As appointed auditor to PKC we have reported positively on its financial management arrangements and its proactive monitoring of budgets and savings. We consider that the IJB is a going concern.

We consider that the Scottish Government is likely to continue to support NHS Tayside. In light of this position, the strong management of resources and the commitment from the two partner organisations we concur with the going concern basis.

### Savings

The IJB is required to make efficiency savings to maintain financial balance. In 2018-19, the required savings identified in the budget were £5.3 million (2.7%). The actual savings achieved was £4.8 million, the shortfall largely due to delays in a corporate procurement review at Perth and Kinross Council, and a review of older people residential care. These are expected to be completed in 2019-20.

### Conclusion

The IJB faces ongoing financial pressures in respect of salary costs, price pressures, legislative change and demand. Overspends are forecast in both health and social care budgets and the integration scheme may require both partners to contribute further to the IJB. We remaining satisfied that the IJB is financially sustainable in the short term as a result of the ongoing commitment of the two joint venture partners.

We are satisfied that the ongoing development of a three year revenue budget will help the IJB plan for future pressures, and will allow management to have quality conversations when discussing future budget settlements but the approach to risk sharing should be agreed and implemented consistently.

# Governance and transparency

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

### Governance framework

The integration scheme between PKC and NHS Tayside sets out the key governance arrangements. The Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the IJB and for monitoring the adequacy of these arrangements.

The Board and Audit and Performance Committee hold meetings on a regular basis throughout the year. We review minutes from each to assess their effectiveness. We also periodically attend meetings of the Audit and Performance Committee for the purpose of presenting our findings and statutory reports. From attendance at these meetings, we consider scrutiny to be effective.

The IJB used CIPFA Guidance: Delivering Good Governance in Local Government Framework to review its governance arrangements, and this included carrying out a self assessment review of the IJB's governance arrangements. This provided assurance that key governance policies and arrangements are in place, and an improvement action was identified for any high or medium risk findings.

### Membership

We note that since inception of the IJB there has been significant change in membership. We included this as a low risk area in the prior year report, and membership changes have continued, albeit at a slower rate, throughout 2018-19. Overall, there were five leavers and five new joiners in the year up to 31 March 2019.

Member stability affects the Board's ability (through understanding and experience) and capacity, to fully scrutinise, challenge and support management. It also inherently takes time for members to fully understand the IJB and its activities.

Two Council voting members have been suspended from their political group and removed from the Council's Administration post year end. A motion proposing their removal from the Board was defeated by an amendment, at a special Council meeting on 2 September 2019.

Management ensures that new members are appropriately trained, as highlighted on page 16. Although we have not identified deficiencies in member scrutiny and challenge during the year, it is clear that members are aware that their role is challenging and they have a steep learning curve to ensure that they can fully deliver on their role. The IJB is forecasting a deficit position for 2019-20 and is facing significant cost and demand pressures moving forward. Members will need to make important decisions moving forward around the ambitions of the Strategic Commissioning Plan, in particular the future shape and scale of service delivery.

### Internal audit

The IJB has an internal audit function which undertakes reviews at both the IJB level and the local authority level. NHS Tayside has its own internal audit function, however any reviews specific to the IJB are shared with the Board and Audit and Performance Committee.

The internal audit function is carried out by the Fife, Tayside and Forth Valley internal audit service, in conjunction with PKC's internal audit in its role as PKC internal auditors. From 1 April 2019, the internal audit function has been carried out by PKC's internal auditors, with the Chief Internal Auditor being selected from PKC.

Internal audit provides the IJB and section 95 officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.

The Chief Internal Auditor concluded in the 2018-19 annual audit report that sufficient work was completed during the year, to enable them to conclude that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system. We concurred with these findings and found no deficiencies.

# Governance and transparency (continued)

### Risk management

In 2016, the three IJBs within the Tayside area agreed a risk management strategy, in conjunction with their respective partner bodies. A strategic risk management framework and risk register were developed, which were considered at the Audit and Performance Committee in November 2018. The policy requires quarterly consideration of the risk register at a senior management team level, and for annual consideration at the audit and performance committee. We consider reporting frequencies to be reasonable.

The IJB has undertaken a self-assessment of its governance framework, and presented an action plan to Audit and Performance Committee on 19 June 2018. This provided assurance that key risks to the achievement of integration objectives have been appropriately identified, communicated and actions undertaken. Regular updates provide assurance to the Board that the risk previously identified are being addressed by management.

### System of internal control

Perth and Kinross Council and NHS Tayside are the partner bodies. All financial transactions of the IJB are processed through the financial systems of the partner bodies and are subject to the same controls and scrutiny as the Council and Health Board, including the work performed by internal audit.

### Fraud

Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by one of the partner bodies internal audit sections. Since the Board does not directly employ staff, investigations will be carried out by the internal audit service of the partner body where any fraud or irregularity originates. NHS Tayside can also call on the expertise of Counter Fraud Services provided through NHS National Services Scotland.

### Conclusion

The IJB has effective scrutiny and governance arrangements, supported by joint internal audit staff from both partners, and with adequate focus on risk management. The IJB conducts its business in an open and transparent manner.

The arrangements in place to investigate and prevent fraud are appropriate.

Membership of the IJB has become more stable, however, two Council voting members have been suspended from their political group and removed from the Council's Administration post year end. A motion proposing their removal from the Board was defeated by an amendment, at a special Council meeting on 2 September 2019. Further changes to membership or tension between members could significantly impair the IJB's ability to operate effectively.

## Wider scope and Best Value

# Value for money

**Value for money (“VfM”) is concerned with using resources effectively and continually improving services.**

The Public Bodies (Joint Working) (Scotland) Act 2014 sets out a broad framework for creating integration authorities. This allowed boards a flexibility to enable them to develop integrated services that best suited local circumstances.

The integration scheme specifies the range of functions delegated by PKC and NHS Tayside to the IJB. The IJB is responsible for establishing effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account.

### Performance indicators

As part of the IJB’s arrangements to consider value for money, management produce and present an annual performance report to the Board. The report links performance of the five IJB objectives against the nine national health and wellbeing outcomes as set out in the strategic commissioning plan.

The partnership objectives cover:

- prevention and early intervention;
- person-centred health, care and support;
- working together with our communities;
- reducing inequalities and unequal health; and
- making best use of available facilities, people.

The annual report highlights the strength and weaknesses of the IJB against historic performance, and performance against the Scottish average. From a review of the annual performance report, the IJB is performing favourably compared to the Scottish average, and have largely improved against previous regional results.

### Value for money in key decisions

The board considers and discusses difficult decisions throughout the year as appropriate. For example, the transformational change projects to prioritise. These are supported by options appraisals and business cases where appropriate.

### Strategic and corporate planning

The Strategic Commissioning Plans Guidance published by the Scottish Government in 2015 sets out an expectation that developing and updating strategic plans should be part of an iterative, cyclical process. The importance of having a Strategic Plan in place was reiterated by the IJB’s Internal Audit Service in their report dated 11 June 2019.

Although management understand the importance of having a Strategic Plan to provide a clear strategic direction, there have been significant delays in its preparation which we consider to be a result of insufficient corporate capacity.

The annual governance statement records the Chief Officer’s intention to address key gaps around planning and performance, workforce and organisational development as part of a wider review of organisational structure.

### *Recommendation three*

#### Conclusion

Overall, we consider that the IJB has appropriate arrangements for using resources effectively and continually improving services.

As noted on page 17, the workforce plan is overdue and while service level consideration occurs, preparation of a corporate view has not commenced. It is also important that the IJB forms a Strategic Plan. The Chief Officer plans to address key gaps in corporate capacity and we consider this is important in order to ensure the effectiveness of the IJB and that officers are able to form strategic and corporate approaches for consideration by the IJB members.



# Appendices

# Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
<b>Statutory duties</b>	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
<b>Financial statements and related reports</b>	<p>Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.</p> <p>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.</p>	<p>Page eight summarises the opinions we have provided.</p> <p>Page 12 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report</p>
<b>Financial statements and related reports</b>	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
<b>Wider audit dimensions</b>	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> <li>- Effectiveness in the use of public money and assets;</li> <li>- Suitability and effectiveness of corporate governance arrangements;</li> <li>- Financial position and arrangements for securing financial sustainability;</li> <li>- Effectiveness of arrangements to achieve best value; and</li> <li>- Suitability of arrangements for preparing and publishing statutory performance information</li> </ul>	We have set our conclusions over the audit dimensions on page 14.

# Auditor independence

## Assessment of our objectivity and independence as auditor of Perth and Kinross Integration Joint Board (“the IJB”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

## Independence and objectivity considerations relating to the provision of non-audit services

### Summary of fees

We have considered the fees charged by us to the entity for professional services provided by us during the reporting period.

Total fees charged by us for the period ending 31 March 2019 can be analysed as follows:	2018-19 £	2017-18 £
Audit of Perth and Kinross IJB financial statements	20,700	20,070
<b>Total audit services</b>	<b>20,700</b>	<b>20,070</b>
Non-audit services	-	-
<b>Total</b>	<b>20,700</b>	<b>20,070</b>

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the IJB.

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the IJB and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully,

KPMG LLP

## Appendix three

# Required communications with the IJB Board

Type	Response
<b>Our draft management representation letter</b>	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2019.
<b>Adjusted audit differences</b>	 There were no adjusted audit differences.
<b>Unadjusted audit differences</b>	 There were no unadjusted audit differences.
<b>Related parties</b>	 There were no significant matters that arose during the audit in connection with the entity's related parties.
<b>Other matters warranting attention by the Audit and Performance Committee</b>	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
<b>Control deficiencies</b>	 We did not test any internal controls during our audit, and therefore have no deficiencies to report. Management retain the responsibility for maintaining an effective system of internal control.
<b>Actual or suspected fraud, noncompliance with laws or regulations or illegal acts</b>	 No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
<b>Significant difficulties</b>	 No significant difficulties were encountered during the audit.
<b>Modifications to auditor's report</b>	 There were no modifications to the auditor's report.
<b>Disagreements with management or scope limitations</b>	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	 No material inconsistencies were identified related to other information in the annual report, management commentary and annual governance statement.  The management commentary is fair, balanced and comprehensive, and complies with the law.
<b>Breaches of independence</b>	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>	 Over the course of our audit, we have evaluated the appropriateness of the IJB's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
<b>Key audit matters discussed or subject to correspondence with management</b>	 The key audit matters (summarized on pages ten and 11) from the audit were discussed with management.

# Action plan

The action plan summarised specific recommendations arising from our work, together with related risks and management’s responses.

We present the identified findings across four audit dimensions:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

### Priority rating for recommendation

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>1. Budget setting</b> (page 15)		<b>Grade two</b>
<p>The Core Health and Social Care budget for 2019-20 was approved on 15 February 2019, prior to the start of the following financial year as required. The GP Prescribing and Other Hosted Services budget was approved in June 2019, three months after the start of the financial year. At the time of this report, the Adult Mental Health budget has yet to be approved, for it to be discussed at the Board meeting in September 2019. This is six months for the start of the financial year.</p> <p>There is a risk that members and management are unable to respond to financial pressures in a timeous manner. We recognise that the IJB is reliant on the financial reporting of PKC and NHS Tayside.</p>	<p>We recommend that all budgets are discussed and approved prior to the start of the financial year.</p>	<p><b>Management response:</b> Agreed</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Implementation date:</b> 31 March 2020</p>

# Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
<b>1. Budget setting (continued)</b>		
<p>Furthermore, the budgets in their current form do not incorporate the use of reserves and associated expenditure. As the IJB increases the use of reserves, there is a risk that the information provided to the Board does not give a clear picture of income and associated expenditure.</p>	<p>As a financial management tool, it is important that the financial plan includes the use of reserves and associated expenditure.</p>	
<b>2. Risk sharing agreement (page 18)</b>		
<p>The integration scheme states that any overspend incurred from 2018-19 onwards may be allocated on a proportionate basis of each partners contribution to the IJB. For 2019-20, there has not yet been any agreement between partners on how any overspend may be shared and we understand discussions have been limited.</p> <p>We consider best practice to be a formal documentation of the agreement, which will assist in the partners approach to budgeting.</p> <p>It is generally recognised that proportionate risk sharing facilitates effective integration.</p>	<p>We recommend that partners are requested formally agree the approach for overspends on an annual basis in advance of the financial year on which agreement is sought.</p> <p>Consistency of approach, and consideration of third party guidance should be included as part of the agreement.</p>	<p style="text-align: center;"><b>Grade two</b></p> <p><b>Management response:</b> Agreed. There is recognition of the need to move towards a proportionate risk sharing agreement.</p> <p><b>Responsible officer:</b> Chief Officer</p> <p><b>Implementation date:</b> 31 March 2020</p>
<b>3. Strategic and corporate planning capacity (pages 17 &amp; 21)</b>		
<p>Although management understand the importance of having a strategic plan in place, there have been significant delays to the preparation of the plan mainly due to lack of capacity within the organisation.</p> <p>We note that the IJB is currently developing a workforce plan. The plan was due by 31 March 2019 however, from the review of the June 2019 risk register, we note that the issue is now overdue.</p> <p>Continued changes in IJB membership reduce the level of experience and ability of members to adequately consider, challenge and support management proposals. In this context, the importance of officer capacity is enhanced.</p>	<p>It is recommended that the Chief Officer addresses key gaps required to provide sufficient officer capacity in respect of strategic and corporate planning in order to ensure the IJBs effectiveness.</p>	<p style="text-align: center;"><b>Grade one</b></p> <p><b>Management response:</b> Agreed. The need for an enhanced corporate and strategic planning capacity as being considered. The organisational restructure of the IJB will address this.</p> <p><b>Responsible officer:</b> Chief Officer</p> <p><b>Implementation date:</b> 31 March 2020</p>

## Appendix five

# Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2016-17 final audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
Final	3	1	-	2

We have provided a summary of progress against 'in progress' actions below, and their current progress.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<p><b>1. Financial reporting timeliness</b> (page 15)</p> <p>During our audit, we review financial reporting as part of our assessment of financial management. We identified on that financial reporting was in excess of two months behind, most notably on 23 March 2018, were the financial position being reported was 31 December 2017.</p> <p>There is a risk that members and management are unable to respond to financial pressures in a timeous manner. We recognise that the IJB is reliant on the financial reporting of PKC and NHS Tayside.</p>	<p><b>Grade two</b></p> <p>We recommend that management discuss with partners the financial reporting process. Any reduction in the timescales would allow members to make decisions based on more up to date information.</p>	<p><b>Management response:</b> Agreed. Actions have been taken to accelerate financial reporting which will ensure an improvement in timescales for reporting.</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Implementation date:</b> Complete</p>	<p><b>Implemented</b></p> <p>We are satisfied that management have implemented this recommendation.</p>

# Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<b>2. Risk sharing agreement</b> (page 18)	<b>Grade two</b>		
<p>The integration scheme states that any overspend incurred from 2018-19 onwards may be allocated on a proportionate basis of each partners contribution to the IJB. For 2018-19, there has been an informal agreement between the partners that any overspend will be met by the partner with operational responsibility. There is no formal documentation for this arrangement.</p> <p>From our discussion with management, and our understanding of the integration scheme, we consider best practice to be a formal documentation of the agreement, which will assist in the partners approach to budgeting.</p>	<p>We recommend that the partners formally agree the approach for overspends on an annual basis in advance of the financial year on which agreement is sought.</p>	<p><b>Management response:</b> Agreed.</p> <p><b>Responsible officer:</b> Chief Officer</p> <p><b>Implementation date:</b> 31 October 2018</p>	<p><b>Not implemented</b></p> <p>No formally documented position has been reached. See current year recommendation two.</p>
<b>3. Workforce planning</b> (page 21)	<b>Grade three</b>		
<p>The IJB's workforce plan is being developed. Once complete this will reflect the NHS approach to workforce planning. The executive team has completed work to date, however the workforce plan has still to be approved by the Board.</p> <p>There is a risk, given the demographics of the workforce, that without a workforce plan in place there could be a detrimental impact to the achievement of the IJB's strategy.</p>	<p>The IJB should progress workforce planning to identify and address potential skills gaps.</p>	<p><b>Management response:</b> Agreed. Development of workforce plans will be a key priority for each Care Programme Board.</p> <p><b>Responsible officer:</b> Clinical Director / Head of Health</p> <p><b>Implementation date:</b> 31 March 2019</p>	<p><b>Not implemented</b></p> <p>Through reviewing the risk register, it was noted that the workforce plan has not been completed yet. See current year recommendation three.</p>



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