

# Argyll and Bute Integration Joint Board

2019/20 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Argyll and Bute Integration Joint Board and the Controller of Audit

September 2020

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# Key messages

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## 2019/20 annual report and accounts

- 1 Our audit opinions on the annual accounts of Argyll and Bute Integration Joint Board (IJB) are unmodified
- 2 The annual audit process ran smoothly despite the challenge of working remotely during the Covid-19 pandemic. The annual accounts will be signed by 30 September which is in line with the original timetable agreed with management in our 2019/20 Annual Audit Plan
- 3 The Management Commentary displays many of the good practice characteristics set out in Audit Scotland guidance although there is scope for making greater use of infographics to present information

## Financial management and sustainability

- 4 Financial management and reporting arrangements are effective and allow members and officers to scrutinise the budget effectively.
- 5 The IJB overspent its 2019/20 budget by £2.4 million and the position, whilst still challenging, is a notable improvement on the £6.7million overspend in 2018/19. Of the 2019/20 overspend, £1.280m related to health services and the balance of £1.120m related to social care services. The health overspend, whilst covered by brokerage from Scottish Government, is due to be repaid in the medium term.
- 6 Cumulative overspends on social care dating back to 2017/18 amount to £5.48m (including the £1.120m from 2019/20) and are due to be repaid to Argyll and Bute Council on a phased basis up to 2024/25.
- 7 The overspend in 2019/20 is primarily due to a shortfall in savings delivery (£3.212 million) and the need to provide for an ongoing dispute with NHS Greater Glasgow and Clyde (£1.324 million)
- 8 The IJB's record in delivering savings has been historically poor and while savings were achieved in 2019/20, they fell short of the £10.9 million target by some 29 per cent (£3.2 million).The IJB has set an ambitious savings target of £10.4 million and is already forecasting that some £4.6m (46%) of the required savings will not be achieved by the end of the financial year.
- 9 The financial impact of Covid-19 is likely to be significant, with uncertainty over the full extent of its impact and funding from the Scottish Government

## Governance, transparency and best value

- 10 The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board
- 11 Governance arrangements were adapted promptly and appropriately to manage with the Covid-19 pandemic. This included holding meetings remotely and delegating extra powers to the Chief Officer to instruct executive action

# Introduction

**1.** This report is a summary of our findings arising from the 2019/20 audit of Argyll and Bute Integration Joint Board (the IJB).

**2.** The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Committee meeting on 18 February 2020. This report comprises the findings from our main elements of work in 2019/20 including:

- an audit of the IJB's 2019/20 annual accounts including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the *Code of Audit Practice 2016* as illustrated in [Exhibit 1](#)

## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

**3.** After the publication of the Annual Audit Plan, in common with all public bodies, the IJB and partner bodies have had to respond to the global coronavirus pandemic. This impacted on the final month of the year and will continue to have a significant impact into financial year 2020/21. This has had significant implications for the provision and costs of services and the suspension of planned projects and activities. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements and the wider dimensions of audit.

## Adding value through the audit

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

- regular attendance at Audit and Scrutiny Committee to present audit findings and participate in discussions

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

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

## Responsibilities and reporting

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

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

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

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

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

**10.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

## Auditor Independence

**12.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**13.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £26,560, as set out in our Annual

Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

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

# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

**Our audit opinions on the annual accounts of Argyll and Bute Integration Joint Board are unmodified**

**The annual audit process ran smoothly despite the challenge of working remotely during the Covid-19 pandemic. The annual accounts will be signed off by 30 September which is in line with the original timetable agreed with management in our 2019/20 Annual Audit Plan**

**The Management Commentary displays many of the good practice characteristics set out in Audit Scotland guidance although there is scope for making greater use of infographics to present information**

The annual report and accounts are the principal means of accounting for the stewardship of the resources and performance

#### **Our audit opinions on the annual accounts of Argyll and Bute Integration Joint Board are unmodified**

**16.** The annual accounts for the year ended 31 March 2020 are due to be approved by the board on 16 September 2020. We reported within the independent auditor's report that:

- the financial statements give a true and fair view of the state of affairs of the IJB as at 31 March 2020 and of its income and expenditure for the year then ended, and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary, and annual governance statement were consistent with the financial statements and properly prepared in accordance with proper accounting practices.

**17.** The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were unaffected by the Covid-19 outbreak. Also, as indicated in the management commentary not all performance information was available for quarter four due to the impact of Covid-19. Instead, quarter three information was used as this was the most up to date at the time of compiling the annual accounts.

**18.** However, we did not consider these to be material to our audit opinion covering the management commentary and have not modified our opinion. Scottish Government guidance issued to local authorities advised that, due to the impact of the pandemic, they could streamline their management commentaries and focus on key areas namely, headline financial risks for the year, the financial position and risks going forward. The IJB provided a comprehensive management commentary that has exceeded these minimum requirements.

**19.** The audit was undertaken remotely, using Microsoft Teams, Skype and e-mail to communicate with officers, as required. The working papers were provided timely and were of a good standard. Despite the challenging circumstances the

finance staff of the IJB and partner organisations provided good support to ensure the audit process ran smoothly.

### **The annual accounts will be signed off by 30 September 2020 which is in line with the original timetable set out in the Annual Audit Plan**

**20.** The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the Annual Accounts. The IJB has not used the flexibilities conferred by these powers.

**21.** The unaudited accounts were submitted to us for audit on 23 June 2020 and we will be signing them off by 30 September 2020. This is in line with the original timescales set out in our 2019/20 Annual Audit Plan.

### **Overall materiality is £5.4 million**

**22.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement in the annual report and accounts.

**23.** On receipt of the unaudited annual accounts we reviewed our materiality assessments and concluded that they remained appropriate. Our initial evaluation of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically, regarding the annual accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

### **Exhibit 2 Materiality values**

Materiality level	Amount
Overall materiality	£5.4 million
Performance materiality	£3.8 million
Reporting threshold	£55 thousand

Source: Audit Scotland, 2019/20 Annual Audit Plan

### **Appendix 2 identifies the main risks of material misstatement and our audit work to address these**

**24.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team are directed. Appendix 2 also identifies the work we undertook to address these risks and our conclusions from this work.

**25.** We have no issues to report from our work on the risks of material misstatement.

## We have no significant findings to report on the annual accounts

**26.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**27.** The accounts provided for audit were of a good standard. We have no significant findings to report and there were no material adjustments to the unaudited annual accounts. We identified some presentational issues, and these were accepted by management and adjusted in the audited accounts.

**28.** There were no misstatements above our reporting thresholds identified from our audit.

## The Management Commentary displays many of the good practice characteristics set out in Audit Scotland guidance although there is scope for making greater use of infographics to present information

**29.** Audit Scotland published a [Good Practice Note: Management Commentaries Enhancing the quality of local government annual accounts](#) which is intended to aid audit bodies in enhancing the quality of their management commentaries. This was shared with officers at the IJB and the Management Commentary displays many of the enhancing characteristics exemplified in the guidance.

**30.** The Management Commentary explains the financial position and is consistent with other information in the financial statements. It is clear and provides a balanced picture of overall performance. Also, significant variances in performance from the prior year are clearly explained as well as the principal risks facing the IJB in the future.

**31.** Significant variances in financial and performance reporting from the prior year are adequately explained in the Management Commentary and the principal risks to the IJB are effectively communicated. Also, the Management Commentary includes enhanced disclosures on Best Value.

**32.** The Management Commentary is written with clarity and avoids jargon when describing complex accounting and reporting concepts. However, presentation could be enhanced with greater use of infographics.

## Progress has been made in implementing prior-year audit recommendations although Covid-19 has delayed implementation of some actions

**33.** The IJB has made progress in implementing our prior-year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

**34.** Particularly good progress has been made in strengthening governance arrangements and in progressing actions to deliver Best Value.

**35.** Progress made against some recommendations have been disrupted by Covid-19 and these will be carried forward to our audit for 2020/21. Further details can be found at [Appendix 1](#) which accompanies this report.

# Part 2

## Financial management and sustainability



### Main judgements

**Financial management and reporting arrangements are effective and allow members and officers to scrutinise the budget effectively.**

The IJB overspent its 2019/20 budget by £2.4 million and the position, whilst still challenging, is a notable improvement on the £6.7million overspend in 2018/19. Of the 2019/20 overspend, £1.280m related to health services and the balance of £1.120m related to social care services. The health overspend, whilst covered by brokerage from Scottish Government, is due to be repaid in the medium term.

**Cumulative overspends on social care dating back to 2017/18 amount to £5.48m (including the £1.120m from 2019/20) and are due to be repaid to Argyll and Bute Council on a phased basis up to 2024/25**

**The overspend in 2019/20 is primarily due to a shortfall in savings delivery (£3.212 million) and the need to provide for an ongoing dispute with NHS Greater Glasgow and Clyde (£1.324 million)**

**The IJB's record in delivering savings has been historically poor and while savings were achieved in 2019/20, they fell short of the £10.9 million target by some 29 per cent (£3.2 million).The IJB has set an ambitious savings target of £10.4 million and is already forecasting that some £4.6m (46%) of the required savings will not be achieved by the end of the financial year.**

**The financial impact of Covid-19 is likely to be significant, with uncertainty over the full extent of its impact and funding from the Scottish Government**

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

### **Financial management and reporting arrangements are effective and allow members and officers to scrutinise the budget effectively**

**36.** Officers and members receive comprehensive budget monitoring reports. These contain information on the year-to-date financial position, forecast outturn for the year, variance analysis with explanations, progress in delivering savings and significant financial risks. The reports contain enough detailed information to enable members to carry out effective scrutiny and challenge of the IJB's finances.

**37.** Members of the Board, and, Finance and Policy Committee, have commented positively on the clarity of the reports and how the detailed financial information helps them understand and scrutinise financial performance effectively. Additionally, members receive separate reports on the costs of dealing with the Covid-19 pandemic.

**The IJB overspent its budget by £2.4 million due mainly to a shortfall in savings delivery (£3.212 million) and the need to provide for an ongoing dispute with NHS Greater Glasgow and Clyde (£1.324 million)**

**38.** The IJB approved its 2019/20 budget in March 2019. The budget was set at £281.2 million with a funding gap of £6.8 million. New savings were planned to meet that funding shortfall, in addition to the £3m of previously agreed savings which had still to be delivered. Further in year savings were agreed, as part of revised financial recovery plans, to bring the 2019/20 savings target up to £10.9m.

**39.** The IJB overspent against its budget by £2.446 of which £1.280 was attributable to health services and £1.166 million attribute to social services as illustrated in [Exhibit 3](#). The position, whilst still challenging, is a notable improvement on the £6.7million overspend in 2018/19.

**40.** The main reason for the overspend was a shortfall in savings delivery of £3.212 million. Also, the IJB had to make a late provision of £1.324 million due to an outstanding dispute with NHS Greater Glasgow and Clyde.

**41.** The Management Commentary within the annual accounts provides a good summary of the financial position while the year-end [budget monitoring](#) report presented to the Board in May 2020 provides detailed analysis and explanations for variances against budget. The report is available to the public on the websites of Argyll and Bute Council and NHS Highland.

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**Exhibit 3**  
**Performance against budget**

IJB budget summary	Budget £m	Actual £m	Overspend £m
NHS Highland	210.606	211.886	1.280
Argyll and Bute Council	70.589	71.755	1.166
<b>Total Net Expenditure</b>	<b>281.195</b>	<b>283.641</b>	<b>2.446</b>

Source: Argyll and Bute IJB 2019/20 Unaudited Accounts

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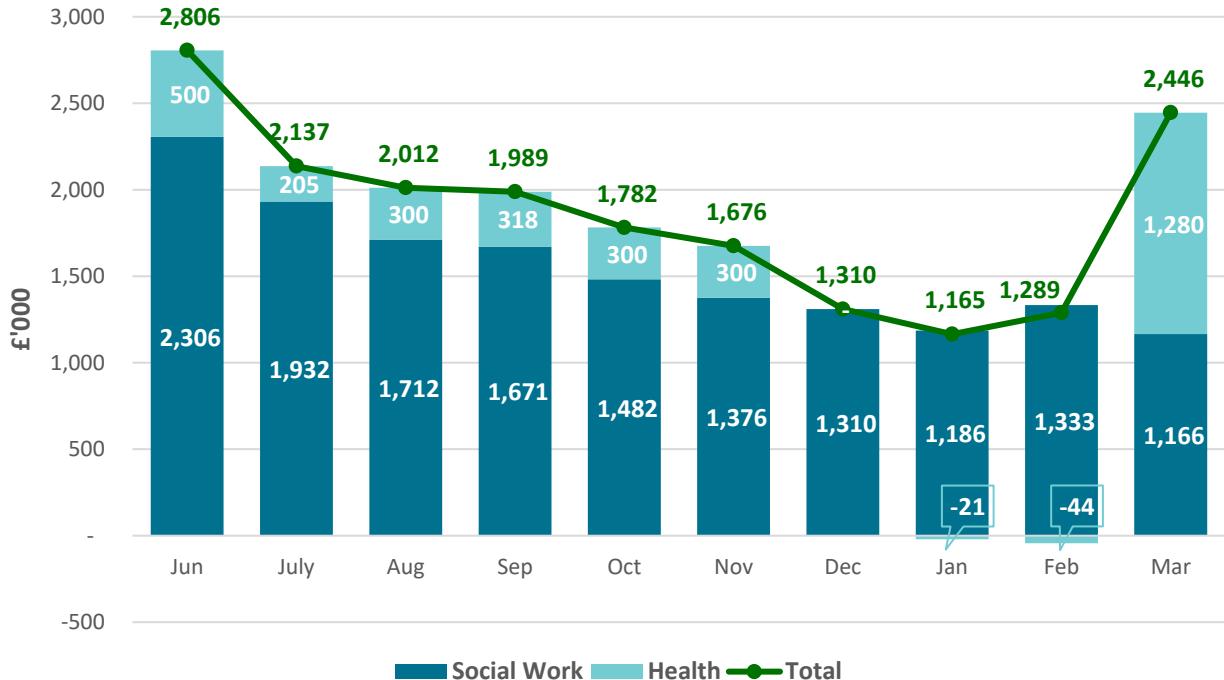
**42.** During the year the IJB had been making good progress in managing down the overspend against budget overspend through financial ‘grip and control’ measures designed to reduce expenditure. As illustrated in [Exhibit 4](#) overleaf, the IJB at one stage it had managed to reduce overspending against budget from £2.808 million in June 2019 to £1,165 million by January 2020; a reduction of £1.643 million (59%).

**43.** The IJB financial position deteriorated significantly in the last month of the financial year due primarily to a dispute with NHS Greater Glasgow and Clyde (NHSGGC) over charges for services provided in 2019/20 totalling £1.324 million. The dispute with NHSGGC was not resolved at the year-end and had it been settled the overall overspend for 2019-20 would have reduced to £1.122 million (£2.446m less £1.324m).

**44.** The disagreement with NHSGGC has been escalated to the chairs of the respective health boards and a meeting with the relevant chief executives, supported by their directors of finance, has been agreed to resolve the matter. However, this meeting has been delayed because of the Covid-19 pandemic.

## Exhibit 4

### Forecast Overspend and Outturn for 2019/20



Source: Argyll and Bute IJB Budget Monitoring Reports

45. Also, from mid-March 2020 the situation has been made more difficult due to Covid-19 and the need to prioritise responses to the pandemic. While acknowledging the challenges posed by the pandemic, it is important that financial discipline be maintained to help ensure expenditure is kept within budget. Otherwise there is a real risk that progress made to date will be undermined and levels of overspending could rise once more.



#### Recommendation 1

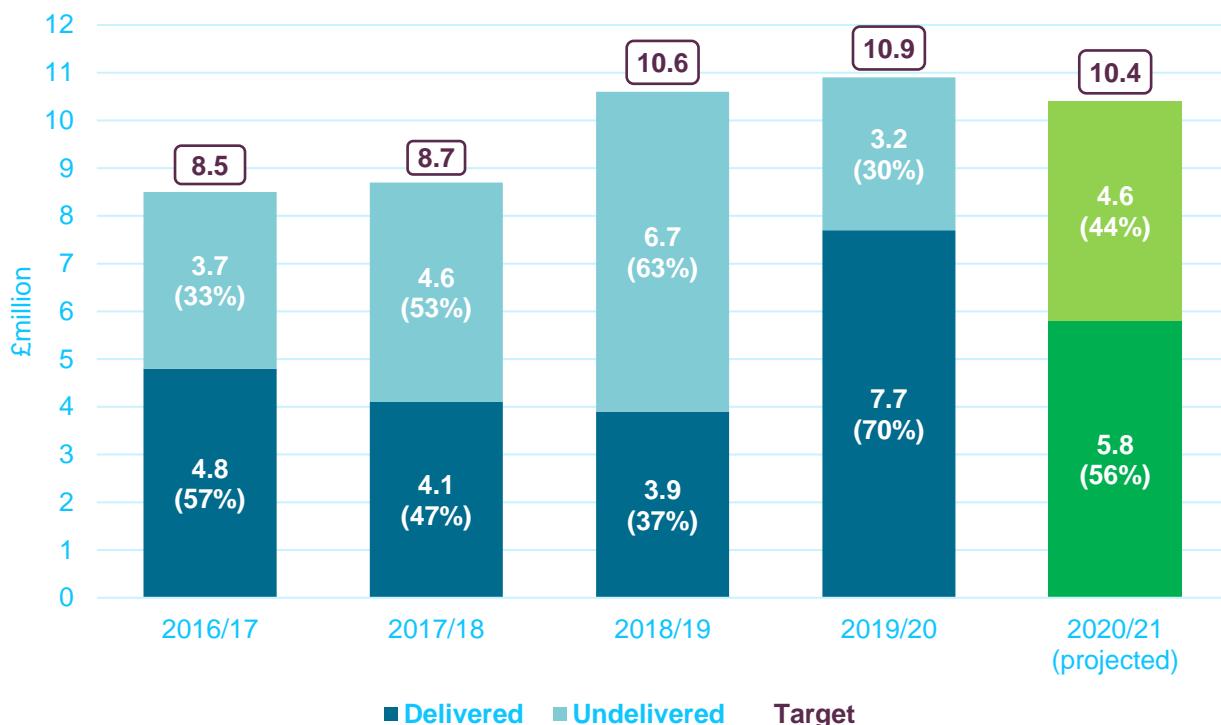
**Reinforce and reiterate the need to maintain financial discipline across all service areas to support measures aimed at managing expenditure and bringing financial performance into recurring balance.**

**The IJB's record in delivering savings has been historically poor and while significant savings were achieved in 2019/20, they fell short of target by £3.2 million.**

46. Savings are vital in ensuring that any budget gaps are bridged, and financial balance is maintained. The IJB's record in delivering savings has historically been poor with savings targets not being achieved in the previous four years as illustrated in Exhibit 5.

## Exhibit 5

### Delivery of Savings 2016/17 to 2020/21 (forecast)



Source: Audit Scotland Annual Audit Reports 2017/18 and 2018/19 and IJB financial monitoring papers.

**47.** In 2019/20 the IJB had made progress in delivering savings with £7.7 million savings out of target of £10.9 million (70%) delivered. The shortfall in savings (£3.2 million) was the main reason for the IJB overspending its budget

**48.** Management recognise the need to step up the pace in delivering previously agreed savings. Although weekly meetings to review savings were suspended in March 2020 and only restarted on 28 May 2020, several actions have been taken to improve savings delivery in 2020/21:

- A Service Improvement Officer (SIO) has been appointed in 2020/21 with the remit of tracking and progressing savings in Social Work. This appointment is in addition to two other SIOs in Learning Disability and Care Homes / Home Care for Older People.
- Health savings are being tracked through the Project Management Office approach co-ordinated by NHS Highland. This approach is being rolled out to social work savings through the Finance team.

**49.** The IJB has set an ambitious savings target of £10.4m for 2020/21 and it is too early to assess the effectiveness of these measures in delivering recurring savings. However, the latest budget monitoring report presented to the Finance and Policy Committee in August 2020 is forecasting that, as at 31 July 2020, 46% of target savings (i.e. £4.6 million) will not be delivered in 2020/21. The report also highlights that the failure to deliver savings is the main factor contributing to a projected overspend of £2.964 million in 2020/21. The IJB has assumed that the Scottish Government will fund additional costs associated with Covid-19 but not undelivered savings.

**50.** Also, the situation is further complicated by the demands on staff due to the ongoing Covid-19 pandemic. There is a real risk, therefore, that the IJB will

overspend its budget in 2020/21 and will require further funding from partner bodies to maintain financial balance.



## **Recommendation 2**

**Inject more pace and vigour into actions designed to deliver savings in line with financial plans and to support efforts aimed at achieving financial balance.**

### **The IJB has well developed medium term financial plans that include scenario planning over a three-year period**

**51.** Medium-and longer-term planning is an important element of good financial management. The IJB has developed a medium-term outlook report covering a three-year period (2020/21 to 2022/23). It includes assumptions about future inflation levels, funding and cost and demand pressures. Also, it sets out the financial position under three different scenarios i.e. best case, mid-range and worst case. The IJB receive regular updates advising them of any revisions to the budget outlook.

**52.** The IJB has not developed any longer-term plans. The IJB is funded on an annual basis. Management believe that this combined with considerable uncertainties about future funding would render longer-term forecasts unreliable and would not be a sound basis for making decisions. Therefore, medium term financial planning is considered appropriate for the IJB at present and longer-term financial planning is an aspiration...

### **Cumulative overspends on social work totalling £5.48 million due to be repaid to Argyll and Bute Council on a phased basis. Also, the health overspend of £1.280 million in 2019/20 while covered by brokerage is due to be repaid to the Scottish Government.**

**53.** The repayment of budget overspends to partner bodies constitutes a significant element of the IJB's medium financial planning. In line with the Scheme of Integration, the partner bodies allocated additional funding to the IJB at the end of 2019/20 to cover the IJB's overspend against budget (£2.446 million).

**54.** In previous years the health overspend was covered by brokerage from Scottish Government which did not need to be repaid and therefore was effectively written off. The health overspend of £1.280 million in 2019/20 while covered by brokerage will require to be repaid unless the ongoing dispute with NHS Greater Glasgow is settled (refer paragraph 43 above). Discussions between NHS Highland and the Scottish Government on repayment expected to be held in 2020/21 with the earliest repayment possibly commencing in 2022/23.

**55.** Repayment of the social work overspend in 2019/20 amounting to £1.2 million and needs to be repaid to Argyll and Bute Council. This is in addition to prior year overspends. An indicative timetable for repayments was presented to the IJB's August 2020 meeting and is reproduced at [Exhibit 6](#). The money due to the council will be reduced from future funding thereby adding to the IJB's financial pressures.

## Exhibit 6

### Phased repayment of Social Work overspends

Financial Year	Repayment 2017/18 Overspend £'000	Repayment 2018/19 Overspend £'000	Repayment 2019/20 Overspend £'000	Total Repayment £'000
2020/21	400	0	0	400
2021/22	655	545	0	1,200
2022/23	0	1,255	0	1,255
2023/24	0	1,327	0	1,327
2024/25	0	0	1,166	1,166
<b>Total</b>	<b>1,155</b>	<b>3,127</b>	<b>1,166</b>	<b>5,348</b>

Source: Argyll and Bute IJB Annual Accounts 209/20

### The IJB is forecasting an overspend against budget in 2020/21 and significant budget gaps in 2021/22 to 2023/24

**56.** In March 2020, the IJB agreed a balanced budget for 2020/21. The latest budget monitoring report presented to the Finance and Policy Committee on 28 August 2020 shows a year-to-date overspend of £2.117 million and a forecast overspend of £2.964 million for 2020/21.

**57.** As soon as an overspend is predicted the Chief Officer and Chief Financial Officer are required to identify the cause of the forecast overspend and prepare a financial plan. A proposed recovery plan was considered at the Finance and Policy Committee on 28 August 2020. This will be presented to the September meeting of the IJB for formal approval.

**58.** Looking further ahead the IJB is facing significant budget challenges assuming a mid-range (most likely) scenario as illustrated in [Exhibit 7](#). It is important therefore that, in future years, the IJB does not overspend its budgets and delivers required savings.

## Exhibit 7

### Budget outlook 2021-22 to 2023-24

Budget Gap	2021-22 £'000	2022-23 £'000	2023-24 £'000	Total £'000
Best case	2,446	476	842	3,764
Mid-range	6,268	4,411	4,932	15,611
Worst case	12,455	10,528	11,088	34,071

Source: IJB Budget Outlook Report submitted to Finance and Policy committee on 28 August 2020

## The financial impact of the Covid-19 pandemic is likely to be significant on future financial plans

**59.** The financial impact of the pandemic is considerable. The IJB contributes to a local mobilisation plan cost tracker which is submitted to the Scottish Government via NHS Highland. Estimated costs relating to the pandemic from the start of April 2020 is £14 million (after offsetting savings of £1.2 million) as at 17 July 2020. There are considerable uncertainties surrounding both these estimated costs and the funding that will be made available from the Scottish Government.

**60.** The IJB made progress in delivering savings in 2019/20. However, the need to prioritise responses to the ongoing Covid-19 pandemic present an additional challenge to the delivery of further savings.

## Financial systems of internal control operated effectively

**61.** The IJB does not operate its own financial systems. It relies on those of the partner bodies i.e. NHS Highland and Argyll and Bute Council. All transactions for the IJB are processed through these partner organisations and they are responsible for maintaining internal controls.

**62.** As part of our audit approach we sought assurances from the external auditors of NHS Highland and Argyll and Bute Council (in accordance with ISA 402) and they confirmed that systems of internal control were designed appropriately. Also, we took assurance from the work carried out by the internal auditors of the partner bodies. In their opinions' there were no significant control weaknesses.

## Internal audit generally complies with Public Sector Internal Audit Standards (PSIAS)

**63.** Internal audit provides the IJB Board with independent assurance on risk management, internal control and corporate governance processes.

**64.** Internal Audit is provided by Scott-Moncrieff. The adequacy of internal audit was assessed as part of a centralised review by Audit Scotland. The review concluded that Scott-Moncrieff were generally compliant with PSIAS.

**65.** The [Code of Audit Practice \(2016\)](#) encourages external auditors to use the work of internal auditors to avoid duplication of effort wherever possible. We have not relied on any internal audit work in 2029/20 but we consider their findings where relevant. For example, we take account of internal audit's annual opinion on the effectiveness of risk management, governance arrangements and systems of control when carrying out our review of the Annual Governance Statement.

## Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

**66.** The IJB does not maintain its own policies relating to the prevention and detection of fraud and error but instead depends on those in place at its partnership bodies. We reviewed the arrangements in place at Argyll and Bute Council and NHS Highland and found them to be adequate. The IJB has a Code of Conduct in place to which members subscribe and the Members' Registers of Interest is publicly available on the Board's website.

**67.** Appropriate arrangements are in place for the prevention and detection of fraud and error. We are not aware of any specific issues we require to bring to your attention.

# Part 3

## Governance, transparency and best value



### Main judgements

**The IJB has appropriate governance arrangements in place which support decision making, accountability and scrutiny.**



**Governance arrangements were adapted promptly and appropriately to manage with the Covid-19 pandemic. This included holding meetings remotely and delegating extra powers to the Chief Officer to instruct executive action.**

**Appropriate arrangements are in place to secure Best Value.**

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

#### **The IJB has appropriate governance arrangements in place which support decision making, accountability and scrutiny**

**68.** As part of our wider dimensions audit work we consider governance and transparency arrangements including:

- board and committee structure and conduct;
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption;
- openness of board and committees; and
- reporting of performance and whether this is fair, balanced and understandable.

**69.** The IJB has a committee structure in place which is supported by clear roles for officers and members. Papers provided by officers to support the Board and other governance committees are of a good standard, cover issues in appropriate detail and are provided sufficiently in advance for members to review. The reporting of performance and especially financial performance is fair, balanced and understandable. Additionally, appropriate time is made available at these meetings to discuss items on the agenda and members are well prepared for the meetings and ask pertinent questions.

**70.** The IJB has appropriately addressed the matters we identified in our 2018/19 Annual Audit Report where governance arrangements required strengthening. These included agreeing formal terms of reference for the Audit and Scrutiny Committee, proper scheduling of meetings and accurate and clear minutes of meetings.

**71.** The IJB promotes a culture of transparency with members of the public able to attend Board meetings. Additionally, all Board minutes and supporting papers are readily available on the websites of Argyll and Bute Council and NHS Highland. These provide the public with information on key decisions made by the Board.

**Governance arrangements were adapted promptly and appropriately to manage with the Covid-19 pandemic. This included holding meetings remotely and delegating extra powers to the Chief Officer to instruct executive action.**

**72.** The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the IJB's annual accounts. We note that the following steps were taken to amend governance arrangements:

- Since March 2020 all IJB meetings have been held remotely via Skype conferencing due to the requirement for social distancing. Members of the press and public have been enabled to attend and a record of meetings is made available via the [Argyll and Bute Council website](#)
- The final meeting of the IJB in 2019/20 saw a delegation of powers to the Chief Officer to instruct executive action for the duration of the pandemic in consultation with the Chair and Vice Chair of the Board.

**73.** The revised governance arrangements put in place by the IJB due to the Covid-19 pandemic are appropriate. Minutes and papers continue to be made available to the public, encouraging openness and transparency.

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

### **Arrangements are in place to secure Best Value**

**74.** The IJB has set out its approach to Best Value through a clear and concise statement within the Annual Governance Statement included in the 2019/20 annual accounts. This is an improvement from last year. Also, the statement indicates how the IJB fulfils its obligations against each of the eight best value themes.

### **National performance audit reports**

**75.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20 we published some reports which may be of direct interest to the board as outlined in [Appendix 4](#).

### **Good practice**

**76.** The Covid-19 pandemic has also driven innovation at the IJB. For example, increasing the use of *Near Me* video consultation for the delivery of health and social care services. Also, and the successful participation in trialling the use of drones to deliver medical supplies and personal protective equipment between medical facilities within Argyll and Bute.

# Appendix 1

## Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial sustainability</b> The IJB budget in 2019/20 was overspent for the third consecutive year in a row primarily due to slippage in delivering savings.</p> <p><b>Risk</b> The IJB continues to overspend and is unlikely to achieve financial balance in the medium term.</p>	<p>Reinforce and reiterate the need to maintain financial discipline across all service areas to support measures aimed at managing expenditure and bringing financial performance into recurring balance.</p> <p><a href="#">Paragraphs 38 to 45.</a></p>	<p>An HSCP communication will be issued again reinforcing the need for these disciplines in order to bring back spend into balance for 2020/21</p> <p>Responsible officer: Head of Finance &amp; Transformation Agreed date: December 2020</p>
2	<p><b>Savings delivery</b> Savings are not being delivered at enough pace to achieve recurring financial balance. The position was exacerbated by the need to prioritise the response to Covid-19 resulting in less focus on savings delivery.</p> <p><b>Risk</b> <b>Savings deliver continue to fall behind target.</b></p>	<p>Inject more pace and vigour into actions designed to deliver savings in line with financial plans and to support efforts aimed at achieving financial balance.</p> <p><a href="#">Paragraph 46 to 50</a></p>	<p>Current forecast reflects actions currently underway, and this is expected to improve in line with the Financial Recovery Plan going to the IJB on 16 September. The weekly savings meetings are aimed at injecting more pace. The recruitment of the 3 Service improvement officers in July is improving pace already, and they will be supported by the Senior Leadership Team. Actions will continue to end of the financial year.</p> <p>Responsible officer: Head of Finance &amp; Transformation Agreed date: 31 March 2021</p>
<b>Follow up of prior year recommendations</b>			
5	<p><b>Forecast overspend in 2019/20</b> The latest budget monitoring report is forecasting an overspend of £2.8 million.</p> <p><b>Risk</b> Failure to resolve the dispute with NHS Greater Glasgow and Clyde lead to an increase</p>	<p>The IJB needs to bring the 2019/20 in-year financial position into balance or, at the very least, set a challenging, but achievable, target overspend that can be addressed through future savings plans.</p>	<p><b>In progress</b> Final outturn for 2019/20 was an overspend of £2.4 million, including a disputed amount of £1.3 million with NHS Greater Glasgow and Clyde. Progress on resolving the dispute has been delayed due to Covid-19. The budget for 2020/21 includes £1.1 million above</p>

	<p>in costs of £2 million being incurred in 2019/20 which could undermine plans to achieve financial balance in 2019/20.</p>		<p>inflation to assist in resolving the dispute.</p> <p>A balanced budget has been set for 2020/21 with additional investment to achieve financial stability.</p> <p>Chief Officer; Head of Finance and Transformation.</p> <p>March 2021.</p>
6	<p><b>Savings plans</b></p> <p>Savings are not being delivered at sufficient pace to achieve financial balance.</p> <p><b>Risk</b></p> <p>Failure to achieve financial balance.</p>	<p>In order to reach a position of recurring financial balance the Board should increase the pace of actions designed to achieve financial savings.</p>	<p><b>In progress</b></p> <p>The Finance and Policy Committee is meeting monthly and monitoring progress on savings delivery. Savings have been split into four workstreams which are being progressed at an operational level by Service Improvement Officers.</p> <p>Chief Officer; Head of Finance and Transformation.</p> <p>Ongoing.</p>
7	<p><b>Medium- to long-term financial planning</b></p> <p>Medium-term financial planning has been progressed through the development of three-year budget outlook reports. A longer-term financial strategy over a five to 10-year period has not been developed. This has been reported in previous years.</p> <p><b>Risk</b></p> <p>The IJB may not be able to respond to, or manage, significant financial risks in the long term.</p>	<p>The IJB should build on work already undertaken in preparing a three-year budget outlook to develop a long-term financial strategy in line with the recommendations set out in Audit Scotland's report on <a href="#">Scotland's Public Finances (2014)</a>.</p>	<p><b>Superseded</b></p> <p>The IJB continues to operate three-year budget outlooks which are updated regularly and presented to the IJB along with a review of financial risks. The IJB is funded on an annual basis and there are several major national reviews either ongoing or just commencing, for example the National Review of Adult Care which mean that any longer-term financial forecasting is not considered reliable by management at the current time. Management will reassess the opportunity for longer-term financial planning at an appropriate time when the operating environment has stabilised.</p>
8	<p><b>Efficiency savings</b></p> <p>The finance report submitted to the IJB at its March 2019 meeting forecast that the budget gaps for 2020/21 and 2021/22 were £7 million and £14.3 million respectively. Savings plans have yet to be fully developed to address these gaps.</p>	<p>As a priority, the IJB should develop and agree savings plans to bridge funding gaps in the medium term.</p>	<p><b>In progress</b></p> <p>Savings plans are in development for 2020/21 and a number of <i>Transforming Together</i> workstreams are in progress which will result in medium-term savings to help bridge the gap.</p> <p>Transformation has been put on hold due to Covid-19 response. Recruitment of a</p>

	<p><b>Risk</b></p> <p>The IJB may not be able to identify and deliver savings plans that will cover funding gaps in the medium term.</p>		<p>Transformation Programme Manage has been agreed by the IJB.</p> <p>Chief Officer; Head of Finance and Transformation.</p> <p>March 2021.</p>
9	<p><b>Governance arrangements</b></p> <p>A review of governance arrangements is underway. However, there are aspects of the Audit Committee's governance arrangements that need to be addressed as a priority.</p> <p><b>Risk</b></p> <p>The Audit Committee may not be carrying out its governance responsibilities in an efficient and effective way.</p>	<p>The review of the Audit Committee's governance arrangements, including terms of reference, should be concluded and approved promptly.</p>	<p><b>Complete</b></p> <p>Audit and Risk Committees terms of reference have been updated and approved by the IJB. Also, improvements have been made in the scheduling of meetings and the recording of discussions at committee meetings.</p>
10	<p><b>Workforce planning</b></p> <p>In previous years we have reported that the IJB needs to develop an overarching workforce plan. A workforce plan has yet to be finalised and approved. Also, such a plan cannot be developed in isolation but needs to be integrated with financial and service plans.</p> <p><b>Risk</b></p> <p>In the absence of integrated planning, the IJB will be unable to manage its staff resources effectively.</p>	<p>Workforce planning should be progressed and integrated with service and financial planning.</p>	<p><b>Ongoing</b></p> <p>Workforce planning has been delayed pending Scottish Government guidance and a revised timescale for implementation.</p> <p>Scottish Government have set a new date for IJB's to have completed and submitted their integrated workforce plans i.e. 31 March 2022.</p> <p>The work is being led by the Council's Head of Customer Support Services.</p> <p><b>In the meantime, a working group have been established to progress this work.</b></p>
11	<p><b>Best Value</b></p> <p>The Best Value section of the Annual Performance Report lacks detail on how Best Value is being delivered.</p> <p><b>Risk</b></p> <p>The IJB is unable to demonstrate that Best Value is being delivered in all key areas.</p>	<p>The Best Value section of the Annual Performance Report should set out succinctly the evidence that shows how Best Value is being delivered against the eight Best Value themes.</p>	<p><b>Complete</b></p> <p>The IJB's 2019/20 IJB annual accounts included a more explicit statement of how best value is being delivered against the eight best value themes. This addresses the audit point raised last year.</p>

# Appendix 2

## Significant audit risks identified during planning

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

Add in any additional audit risks arising from Covid-19

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
1 <b>Management override of controls</b>  Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is assumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.  Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.  Reviewed accounting estimates for biases.  Evaluated significant transactions that are outside the normal course of business.  Focussed testing of the regularity and cut-off assertions during the financial statements audit.	We found no evidence of management override of controls as part of the work carried out.
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
2 <b>Financial Sustainability</b>  Financial position  Financial sustainability is a continued risk for the IJB. The forecast outturn position (as at September 2019) for 2019/20 is a forecast overspend of £2 million. This consists of a Social Work overspend of £1.7 million and a Health overspend of £318,000. It is therefore unlikely that the IJB will achieve financial balance for the financial year.  In the mid-range scenario, the projected budget gap for the three-year period from 2020/21	Review and assess progress in delivering Financial Recovery Plan.  Assess the impact of grip and control measures in improving the financial position.  Monitor savings plans to assess progress in delivering savings.  Review progress made in discussions between the IJB and NHSGGC and assess the impact on the IJB's financial position.	From our review of budget monitoring reports and the financial statements, financial position continues to be a risk for the IJB.  The year-end overspend against budget for 2019/20 was £2.4 million. This consisted of an overspend of £1.2 million in Social Work and £1.3 million in Health.  <a href="#">Exhibit 4</a> shows the month-by-month outturn position. Good progress has been made to implement savings plans throughout the year to reduce the outturn overspend and the year-end position was exacerbated by

Audit risk	Assurance procedure	Results and conclusions
	to 2022/23 is £21.1 million with a gap of £8.8 million occurring in 2020/21.	the inclusion of the provision of £1.3 million relating to the disputed Service Level Agreement with NHS Greater Glasgow and Clyde.
3 <b>Financial sustainability</b>  Long-term financial position  The IJB has in place a short- and medium-term financial outlook outlining the challenges faced over the next three years – these are aligned to the Strategic Plan 2019/20 to 2021/22. However, there is still a lack of long-term financial planning.	Monitor progress made in forming medium- and longer-term financial plans that are aligned to the Strategic Plan and the IJB's objectives.	The IJB continues to operate on a three-year budget plan. As per responses from management, this is due financial uncertainties meaning that a longer-term financial plan being unreliable.  Considering the above, and the fact that the IJB is funded on an annual basis, the medium-term financial planning in place is appropriate.  Longer-term financial planning should remain as an ambition for the IJB's financial sustainability.
<b>Additional Audit Risks arising from Covid-19</b>		
4 <b>Funding for Covid-19 costs</b>  There is uncertainty over the level of funding that will be received from the Scottish Government for costs relating to Covid-19.  The IJB have a cost tracker in place to monitor such costs, which are reported to the Scottish Government via NHS Highland health board.	Audit work on financial sustainability is to include monitoring of national engagement with the Scottish Government, through COSLA, on funding of Covid-19 response.	Costs related to Covid-19 continue to be tracked and reported to members via financial monitoring reports.  The IJB have also been able to identify savings through such monitoring – for example, reduced travel costs for staff.  Monitoring of local and national engagement over additional cost pressures and funding sources related to Covid-19 to continue into 2020/21.

# Appendix 3

## Summary of national performance reports 2019/20

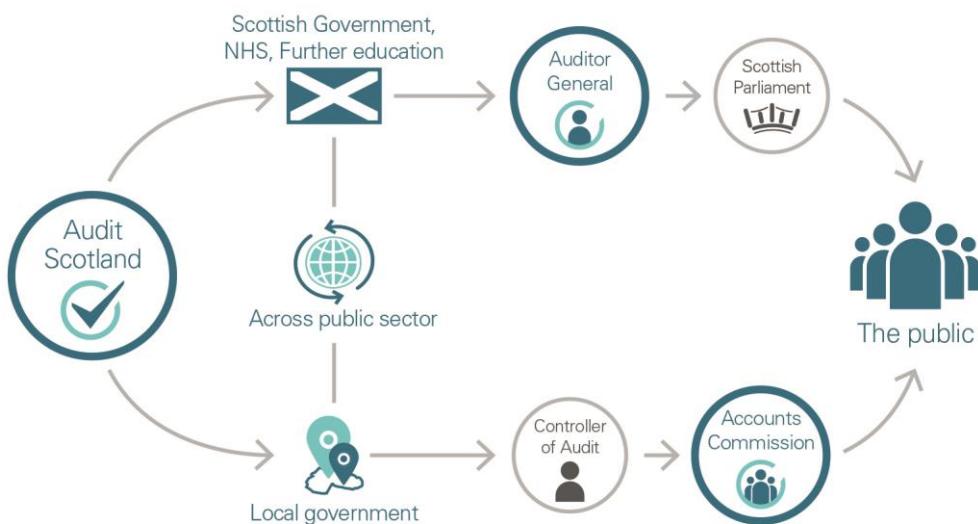


	Apr		
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	Early learning and childcare: follow-up

## Who we are

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

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



## About us

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

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

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

# Argyll and Bute Integration Joint Board

## 2019/20 Annual Audit Report

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