



## **North Ayrshire Integration Joint Board**

Report to the Members of the IJB and the Controller of Audit  
on the 2019/20 audit

Issued on 19 August for the meeting on 27 August 2020

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# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the North Ayrshire Integration Joint Board (“the IJB” “the Board”) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the Performance and Audit Committee in March 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the IJB in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers’ duty to secure best value.



# Introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### **Conclusions from our testing**

We have issued an unmodified audit opinion.

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10.

No misstatements in excess of our reporting threshold of £199,000 or disclosure deficiencies have been identified up to the date of this report.

### **Status of the financial statements audit**

Our audit is complete.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

Due to the impact of the COVID-19 pandemic and cancellation of Committee meetings up to the end of July, we did not prepare a separate interim report as planned and have instead reported our detailed findings and conclusions within this report.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on IJB at this stage.

# Introduction (continued)

## The key messages in this report (continued)

### **Conclusions on audit dimensions (continued)**

#### ***Financial Management***

The IJB has effective financial planning and management arrangements in place with a strong and consistent finance team. The accuracy of the financial projections have improved over the year through close working between finance and service areas. This has also benefited from a revised finance structure and systematic processes in place. The implementation of the Financial Recovery Plan has resulted in an improved year-end financial position. Further work is still, however, required to align the Strategic Plan to the Medium Term Financial Strategy to demonstrate that resources are being directed in line with priorities.

#### ***Financial sustainability***

While the IJB has achieved short term financial balance, it has been unable to repay any of the debt due to North Ayrshire Council in 2019/20 and a number of risks remain with the 2020/21 budget, in particular the impact of COVID-19. The Medium Term Financial Plan (MTFP) has not yet been updated, with further delays as a result of management focusing on responding to COVID-19. The IJB is therefore unable to evidence it is financially sustainable in the medium to longer term.

The IJB is progressing with its transformation programme and is taking an innovative approach to determining future service delivery. Significant work is still required to make the level of transformational change needed, with COVID-19 likely to impact on timelines and plans.

#### ***Governance and Transparency***

The IJB has strong leadership and, with its partners, has a clear vision. Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

Further improvements have been to the IJB's approach to openness and transparency during the year with all minutes of the Performance and Audit Committee now publicly available and all IJB meetings are now being webcast.

The IJB is starting the development of its next Strategic Plan. It is important that this work is progressed in line with the updated MTFP to ensure a clear linkage with priorities, outcomes and resources. This should take into account lessons learned from the COVID-19 pandemic.

#### ***Value for money***

The IJB continues to have an embedded performance management culture. Performance data has shown an improved position during 2019/20, however, there remain areas of specific challenge. The pace and scale of transformation needs to increase to address the challenges faced. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

Our detailed conclusions are included on pages 18 to 31 of this report. We will consider progress with the agreed actions as part of the 2020/21 audit.

# Introduction (continued)

## The key messages in this report (continued)

### **Emerging issues**

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the IJB as an Appendix on pages 34 and 35 of this report.

### **Next steps**

An agreed Action Plan is included as an Appendix on pages 38 to 43 of this report which includes a follow up of progress on previous years agreed actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

### **Added value**

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

We have also included conclusions on the Board's Best Value arrangements, which are discussed on page 32.

In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which is open to anyone to join.

**Pat Kenny**  
**Audit Director**

# Financial statements audit



# Quality indicators

## Impact on the execution of our audit

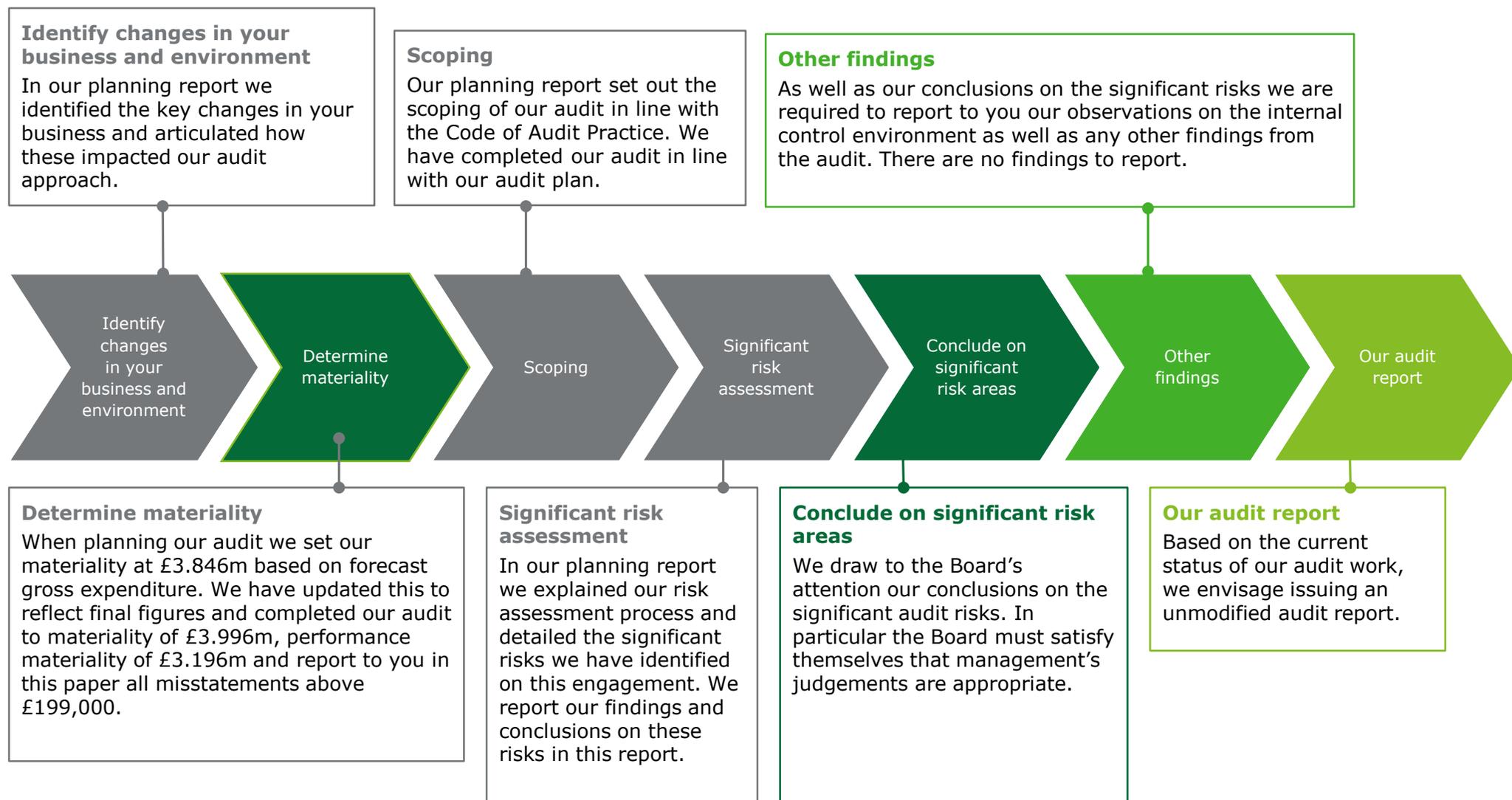
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason
Timing of key accounting judgements	●	There are no significant accounting judgements include in the IJB accounts.
Adherence to deliverables timetable	●	The audit of the annual accounts commenced on 15 June. However, receipt of the first draft of the annual report and accounts was not received until 25 June (10 days after the agreed date). We were advised that this was due to competing priorities with COVID-19 mobilisation returns due around the same time, although this did not create significant issues.
Access to finance team	●	Deloitte and North Ayrshire IJB have worked together to facilitate remote communication during the audit which has been successful.
Quality and accuracy of management accounting papers	●	On the whole documentation provided has been a good standard. Improvements can be made to make it clear how the final management accounts reconcile to the draft Comprehensive Income and Expenditure Statement (CIES) position as these were difficult to follow.
Quality of draft financial statements	●	A full draft of the annual report and accounts was received for audit on 25 June 2020. The draft was of a good standard with minor changes required.
Response to control deficiencies identified	●	No control deficiencies were identified.
Volume and magnitude of identified errors	●	We have not identified any significant financial adjustments, although we identified adjustments required to the management commentary in relation to the Lead Partnership Services. We have also added a recommendation on page 38 regarding the timely provision of Lead Partnership recharges workings to include in the draft annual accounts.

! Lagging    ! Developing    ● Mature

# Our audit explained

We tailor our audit to your business and your strategy



# Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness and accuracy of income			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Risk 1 – Completeness and accuracy of income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

The main components of income for the IJB are contributions from its funding partners, namely North Ayrshire Council (NAC) and NHS Ayrshire and Arran (NHS A&A). The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Health Board and the Council.



### Key judgements and our challenge of them

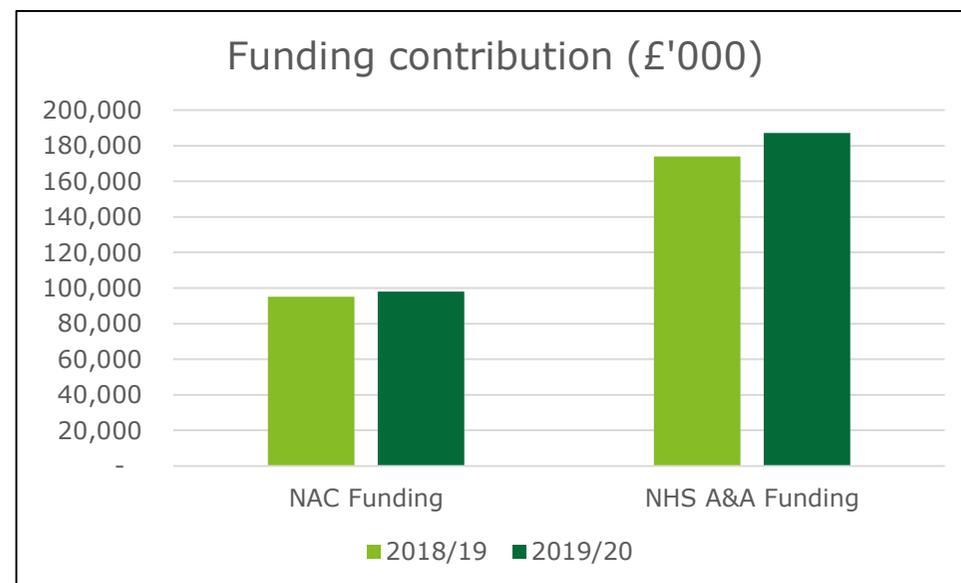
Given the year-end deficit projected by the IJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.



### Deloitte response

We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any amendments have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2020 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2019/20 have been reviewed on a regular basis; and
- assessed the design and implementation of the controls around recognition of income.



### Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

# Significant risks (continued)

## Risk 2 - Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.



### Key judgements

The key judgement in the financial statements is that which we have selected to be the significant audit risk around the completeness and accuracy of income (page 11). This is inherently the area in which management has the potential to use their judgement to influence the financial statements.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Board's results throughout the year were projecting overspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### Journals

We have performed design and implementation testing of the controls in place for the review of management accounts.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

### Accounting estimates and judgements

We reviewed the financial statements for accounting estimates and judgements which could include biases that could result in material misstatements due to fraud.

No issues have been identified from our testing.

### Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested.

# Other significant findings

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### **Qualitative aspects of your accounting practices:**

The IJB accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code.

### **Other matters relevant to financial reporting:**

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

### **Significant matters discussed with management:**

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation and the need to review medium to long term plans.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# Coronavirus (Covid-19) outbreak

## Impact on the annual report and audit

The current crisis is unprecedented in recent times. The NHS and social care sectors are most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Performance and Audit Committees need to consider. We summarise below the key impacts on reporting and audit:

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### Impact on Board annual report and financial statements

The Board need to consider the impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures
- Impact of performance in 20/21
- Change in the funding regime for 20/21
- Onerous contracts and any potential provisions
- Going concern
- Events after the end of the reporting period

### Impact on our audit

Covid-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some Board staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Timetable of the audit has been shorter given initial accounts delay and Board date.
- Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with the Board, we will continue to consider any developments for potential impact up to the finalisation of our work on 27 August 2020.

# Our audit report

## Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



### **Our opinion on the financial statements**

We have issued an unmodified audit opinion.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

While the Board is faced with financial sustainability issues (as discussed on page 24), it ended 2019/20 with a small overspend and has agreed a balance budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 16.

# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focuses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Following minor amendments made during the course of the audit, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading. Improvements can be made going forward to reduce the amount of narrative, particularly in the financial performance, and by balancing it with more graphics to make it more accessible.</p>
Remuneration Report	The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have completed our procedures on the remuneration and pension benefits, pay bands, and exit packages, and further to an amendment for one minor disclosure omission, we can confirm that the remuneration report disclosures have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts regulations, and we are satisfied that the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.

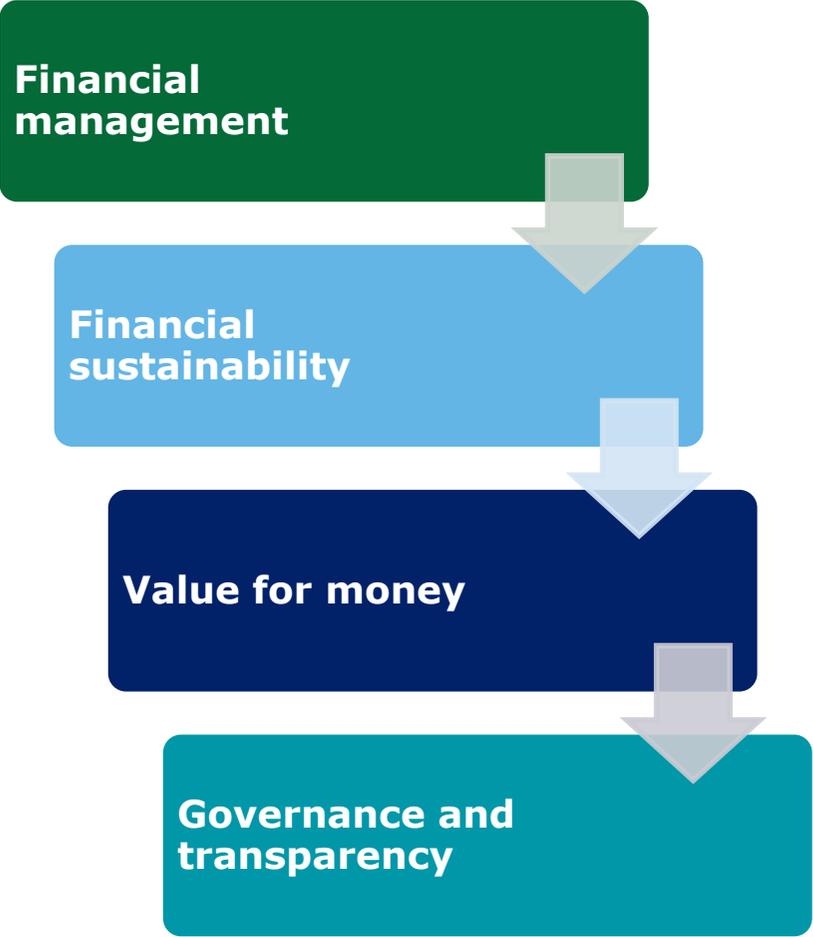
# Audit dimensions and best value



# Audit dimensions

## Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This section of our report sets out our conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers relevant risks identified by Audit Scotland.



**Financial management**

**Financial sustainability**

**Value for money**

**Governance and transparency**

**The Islands (Scotland) Act 2018** received royal assent in July 2018. The Islands (Scotland) Act 2018 places a duty on 'relevant authorities' to have regard to island communities in exercising their functions. Relevant authorities must prepare an island communities impact assessment for any policy, strategy or service likely to have an effect on an island community which significantly differs from that on other communities. This is known as "island-proofing". The Act requires relevant authorities to publish information at least once annually detailing steps taken to comply with their duty of having regard to island communities.

We have considered the implications of the Act as part of our consideration of BV arrangements (discussed further on page 32).

# Financial management

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



## Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in audit plan:

*"Given the current year projected overspend, there remains a risk that the budget setting and monitoring arrangements are not sufficiently robust to ensure that the IJB operates within the delegated budgets".*

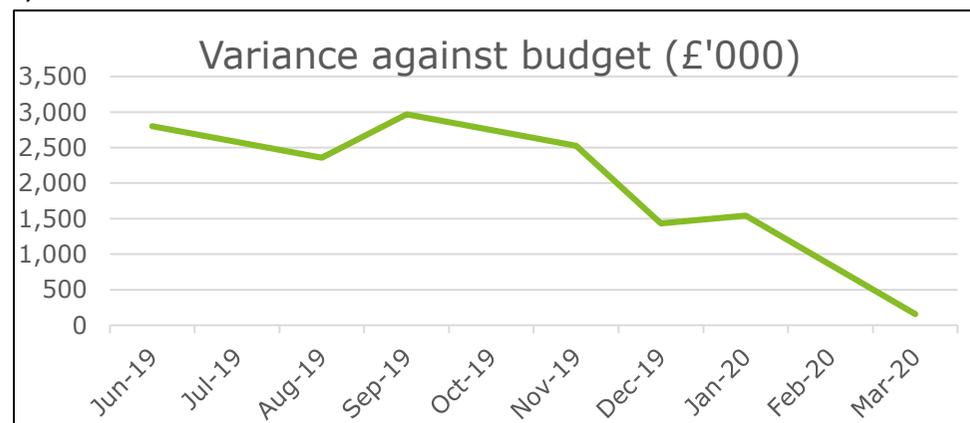
## Budget monitoring

**2018/19 Conclusion:** The IJB achieved an underspend of £0.945m in 2018/19, after £1.486m was transferred back from North Ayrshire Council which was held on behalf of the IJB.

**2019/20 Update:** The IJB reported overspends throughout the year, with this peaking at a projected overspend of £2.9m in September 2019. This was largely as a result of overspends in Community Care Service Delivery (£1.356m overspend projected in September) and Looked After and Accommodated Children (£1.278m overspend projected in September).

In response to the increasing overspends, the IJB approved a Financial Recovery Plan in September 2019 to take action to bring overall service delivery back in line with the available resource. This included specific targeted actions with a focus on addressing the pressure area which would not only improve the projected overspends in the current year but also address recurring overspends in service areas moving into future years.

The financial recovery plan was closely monitored, and the final outturn position was a year-end overspend of £0.154m, as demonstrated in the graph below. This position was after the allocation of £1.486m debt repayment budget from North Ayrshire Council. The position before this was an overspend of £1.640m. This means that the IJB has been unable to repay the historical debt to North Ayrshire Council and has now increased this by £0.154m.



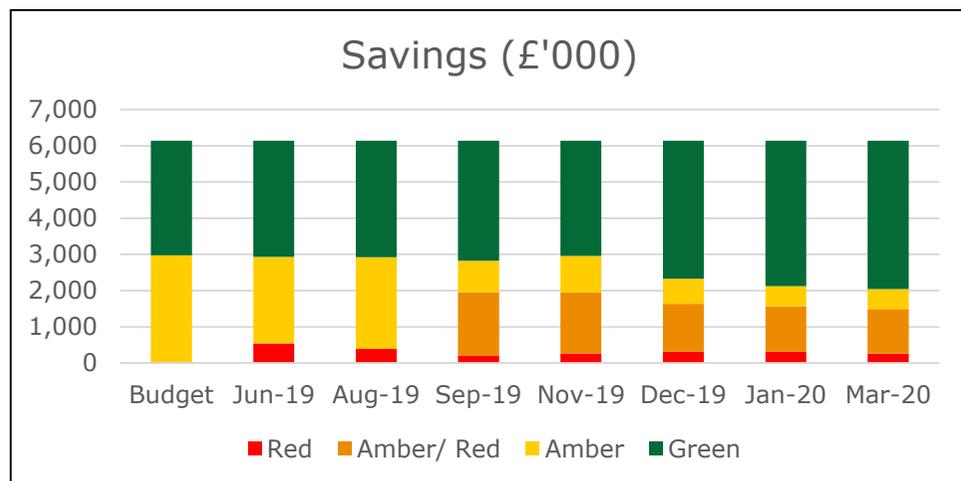
**2019/20 Conclusion:** The accuracy of the financial projections have improved over the year through close working between finance and service areas. This has also benefited from a revised finance structure and systematic processes in place. The implementation of the Financial Recovery Plan has resulted in an improved year-end financial position. However, the IJB still ended the year in a deficit position, increasing its debts due to the Council.

# Financial management (continued)

## Savings Plans

**2018/19 Conclusion:** Savings of £4.043m were achieved against a savings requirement of £6.615m in 2018/19.

**2019/20 Update:** The approved budget includes £6.134m of savings. This was monitored as part of the financial monitoring reports to the Board during the year through the use of a Red, Amber, Green (RAG) rating. Savings totalling £4.5m were delivered in-year.



**2019/20 Conclusion:** The IJB continues to face challenges in achieving savings required. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required.

## Financial reporting

**2018/19 Conclusion:** Improvements were made to the quality and frequency of financial monitoring reports and we concluded that there was now an effective integrated budget monitoring arrangement in place. We did, however, recommend that there needs to be a clearer link between the budgeted spend and the IJB's priorities as set out within the Strategic Commissioning Plan and impact on budgets.

**2019/20 Update:** From our review of the monitoring reports during 2019/20, it is clear that in overall terms, the reports to management and the Board are consistent and transparent, with appropriate action taken, as evidenced from the financial recovery plan developed in the year in response to the overspend position.

The transformation change programme (discussed further on page 24), agreed as part of the 2019/20 budget process aligned the service change to the IJB priorities. The 2020/21 budget also includes specific areas of investment to improve outcomes. Further work is still, however, required to align the Strategic Plan to the Medium Term Financial Strategy to demonstrate that resources are being directed in line with priorities. This is expected to be reviewed as part of the refresh of the MTFP, discussed further on page 24.

**2019/20 Conclusion:** The IJB continues to have effective financial planning and management arrangements in place. Further work is still required to align the Strategic Plan to the Medium Term Financial Strategy.

# Financial management (continued)

## Financial capacity

**2018/19 Conclusion:** The finance team is led by the Chief Finance and Transformation Officer who was appointed to her role in July 2018. We concluded that this appointment had been pivotal in the significant improvement of the IJB's financial position. The Social Care Finance Team moved across to the partnership during 2018/19 to facilitate improved communication and joint working with front line HSCP colleagues. This provided an opportunity to strengthen financial management arrangements, including the reliability and accuracy of financial projections and financial processes.

**2019/20 Update:** The finance team continue to be led by the Chief Finance and Transformation Officer, supported by the integrated social care finance team.

**2019/20 Conclusion:** The IJB continues to have a strong and consistent finance team with the relevant financial skills, capacity and capability.

## Internal audit

North Ayrshire Council's Chief Internal Auditor provides the Internal Audit function for North Ayrshire IJB. The NHS Ayrshire and Arran Health Board also share relevant work via their Internal Auditor, Grant Thornton.

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

## Standards of conduct for prevention and detection of fraud and error

We have reviewed the IJB's arrangements for the prevention and detection of fraud and irregularities. Overall we found the IJB's arrangements to be designed and implemented appropriately.

## Deloitte view – financial management

The Board has effective financial planning and management arrangements in place with a strong and consistent finance team. The accuracy of the financial projections have improved over the year through close working between finance and service areas. This has also benefited from a revised finance structure and systematic processes in place. The implementation of the Financial Recovery Plan has resulted in an improved year-end financial position. However, the IJB still ended the year in a deficit position, increasing its debts due to the Council. Further improvement is therefore required to ensure that the approved budget, savings plans and projections made are robust. Further work is still required to align the Strategic Plan to the Medium Term Financial Strategy.

# Financial sustainability

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



## Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in audit plan:

*"There is a risk that the plans for efficiency savings, achieving financial balance and service redesign are not robust enough to allow the benefits to be realised".*

## Budget setting

**2018/19 Conclusion:** The IJB achieved short term financial balance in 2018/19 and commenced repayment of the historic debt outstanding to North Ayrshire Council. A balanced budget was set for 2019/20, however, this included significant efficiencies and service transformation programmes that need to be achieved in order for a balanced budget to be maintained.

**2019/20 Update:** A balanced 2020/21 budget was approved by the Board on 19 March 2020. This includes £8.367m of budget pressures, offset by a baseline funding increase of £4.506m, i.e. an initial budget gap of £3.861m. Savings plans were approved as part of the budget setting process to address this gap, with a RAG rating given - £2.527m assessed as Amber and £1.334m assessed as Green.

In setting its budget the Board has recognised that a number of risks exist including:

- High risk areas of low volume/ high cost services areas, e.g. Learning Disability care packages, children's residential placements, complex care packages.
- Progress with the work to develop set aside arrangements and the risk sharing arrangements agreed as part of this.
- Ongoing implementation costs of the Scottish Government policy directives, for example Free Personal Care for under 65's.
- Lead/hosted service arrangements, including managed pressures and reporting this across the three IJBs.
- The impact on Lead partnership and acute services from decisions taken by other Ayrshire areas.
- North managed Health Wards where there is an impact from capacity used by other areas.
- The potential financial impact of the HSCP response to the COVID-19 pandemic and the wider public sector financial impact, including the Council and Health Board.

# Financial sustainability (continued)

## Budget setting (continued)

### Impact of COVID-19

In setting the budget on 19 March, the Board has highlighted that there is a risk in relation to the potential financial impact of the response to COVID-19. The approved budget therefore does not incorporate any additional associated costs.

The HSCP developed a mobilisation plan detailing the additional activities undertaken to support its response to COVID-19, alongside the estimated financial impact. This is being monitored and updated on a regular basis, with the estimated costs associated with the HSCPs submitted to the Scottish Government. The most recent submission in June 2020 outlines an estimated cost of £7.3m for the duration of 2020/21. There is an expectation from the HSCP that the Scottish Government will provide additional funding to IJBs to support additional costs aligned to mobilisation plans. The full funding allocation has not yet been confirmed, and the interim allocation to address immediate social care pressures, is not sufficient to fund all pressures.

**2019/20 Conclusion:** The level of savings required in 2020/21 is significantly lower than previous years and more in line with savings actually achieved in the past. The impact of COVID-19 remains a significant challenge.

### Reserves

**2018/19 Conclusion:** The IJB Reserve Policy approved in 2016 approved a reserve level of no more than 2-4% of net expenditure. As part of the annual budget process, the IJB recognised that given the significant financial pressures facing the partnership and the requirement to deliver significant savings, this optimal reserve balance was aspirational.

The reserves position in the North Ayrshire IJB is unique in that the Board hold a negative reserve balance which has accumulated from previous year overspends, the negative reserve balance is offset by a debtor on the balance sheet reflecting the debt due to North Ayrshire Council

**2019/20 Update:** The IJB approved the updated Reserves Policy Strategy in October 2019. The fundamental operations of reserves has not changed, however, the Policy has been updated to incorporate the policy in relation to holding a negative reserves balance and to be clearer in relation to responsibilities for planning for adequate reserves as part of the IJB budget planning.

In setting the 2020/21 budget, the Board did not set a target for allocating any resources to the general reserves, but agreed that consideration should be given to this in future and considered as part of the Medium Term Financial Plan to allow the IJB to cushion some of the impacts of demand fluctuations for services and to support financial planning over a longer time period.

The actual reserves position per the financial statements is noted below:

	Total Reserves (£'000)
<b>Balance 31 March 2019</b>	(4,862)
Overspend in 2019/20	(224)
<b>Balance 31 March 2020</b>	(5,086)

**2019/20 Conclusion:** In line with good practice, the IJB continues to review its reserves strategy and it is positive to note that it has recognised that consideration may be given to allocating resources to reserves in the future to support financial planning over the medium to longer term. The negative reserves position and ability to repay this to the Council still represents a significant risk given the history of the in year financial position.

# Financial sustainability (continued)

## Medium term financial planning

**2018/19 Conclusion:** In the medium-term, the IJB is faced with an extremely challenging financial position as the current level of service provision is not financially sustainable. A Medium Term Financial Plan is in place covering the period 2017/18 to 2019/20, which sets out the key demand pressures and funding assumptions over the three year period. This was due to be updated in 2019/20 to take account of issues set out in the Scottish Government's five-year Medium Term Financial Strategy, its Health and Social Care Medium Term Financial Framework and the work of the Transformation Board.

**2019/20 Update:** In setting the 2020/21 budget, the intention was to bring a refreshed three year Medium Term Financial Plan to the IJB for approval. Management has confirmed that this was not possible due to the one year Scottish Government finance settlement for Local Government and NHS Boards. The focus was therefore made on balancing the budget for 2020/21 and gaining approval for the pressures and savings plans prior to the start of the new financial year. The MTFP was due to be refreshed and brought to the IJB for approval in June 2020, however, this has again been delayed due to management focusing on responding to the impact of COVID-19.

**2019/20 Conclusion:** The IJB continues to be faced with an extremely challenging financial position in the medium to longer term. Given the risks associated with COVID-19 highlighted in the 2020/21 budget, discussed on page 22, these will need to be taken into account in updated medium and long term plans. The MTFP has not yet been updated, with further delays as a result of management focusing on responding to COVID-19. The IJB is therefore unable to evidence it is financially sustainable in the medium to longer term.

## Transformation

**2018/19 Conclusion:** The Transformation Board has been established to drive the delivery of transformational change at the required scale and pace to set the direction for the Strategic Plan 2018-21.

**2019/20 Update:** A Transformation change programme is in place, covering four main themes of building teams around children, developing a wider range of primary care services, supporting older people and people with complex care needs and creating mental health and learning disability services to better support people to stay well. The Transformation Board has continued to meet during 2019/20 and has oversight of the programme. The Transformation Board review progress with savings and any corrective action required to bring any plans back on line.

The **North Ayrshire Council Best Value Assurance Report** published by the Accounts Commission in June 2020 highlighted the following in relation to the IJB's Transformation work:

*"In response to the need to increase the pace of delivery of transformation, the IJB is progressing its "Thinking Different, Doing Better" experience. This is an innovative approach to engaging with all staff and community groups. The objective is to empower them to meet individual outcomes in a more creative, person-centred way. The ideas and outputs from each session are being collated and will be used to determine how services will look like in the future"*

**2019/20 Conclusion:** The IJB is progressing with its transformation programme and is taking an innovative approach to determining future service delivery. Significant work is still required to make the level of transformational change needed, with COVID-19 likely to impact on timelines and plans.

## Financial sustainability (continued)

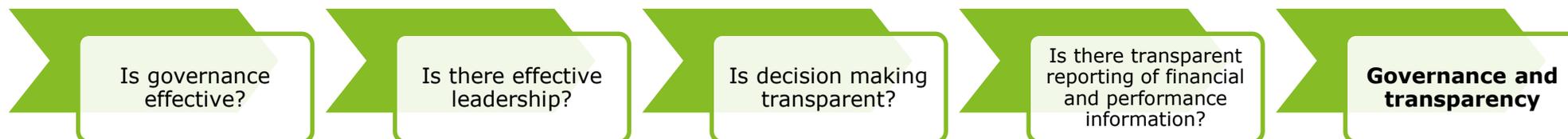
### Deloitte view – Financial sustainability

As noted on page 19, the IJB ended 2019/20 with an overspend of £0.154m and has set a balanced budget for the 2020/21. However, it has been unable to repay any of the debt due to North Ayrshire Council in 2019/20 and a number of risks remain with the 2020/21 budget, in particular the impact of COVID-19. The MTFP has not yet been updated, with further delays as a result of management focusing on responding to COVID-19. The IJB is therefore unable to evidence it is financially sustainable in the medium to longer term.

The Board is progressing with its transformation programme and is taking an innovative approach to determining future service delivery. Significant work is still required to make the level of transformational change needed, with COVID-19 likely to impact on timelines and plans.

# 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



## Areas considered

Our approach to the audit dimensions is risk focused. Our planning paper identified the following risk:

*“There continues to be an ongoing risk that that the IJB does not achieve the full benefits of integration. We will consider the ongoing work to review the key governance documents of the IJB and deliver transformational change”.*

## Leadership

**2018/19 Conclusion:** The IJB has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of East Ayrshire. Board members and staff support the vision.

**2019/20 Update:** There have been a few changes in the Board composition during the year including Robert Martin stepping down as the Chair of the IJB and Councillor Robert Foster assuming the role with effect from 17 May 2019. Other changes have been made to both Council NHS and Independent Sector representatives on the Board. These changes transitioned smoothly with appropriate training and support.

**2019/20 Conclusion:** The IJB continues to have strong leadership and the transition of new board members during the year went smoothly.

## Governance and scrutiny arrangements

**2018/19 Conclusion:** It was positive to note that the IJB and its partners are reviewing and updating the governance arrangements for the IJBs to take cognisance of the experience from early integration. We noted that the IJB had a number of key governing documents which had not been reviewed or refreshed since 2015 therefore recommended that the IJB carry out a periodic review of its key governing documents to ensure that they are still fit for purpose.

**2019/20 Update:** Progress has been made in the past few years in a number of areas to review and enhance the governance and scrutiny arrangements.

The IJB took part in a pan-Ayrshire review to develop approaches to “Directions”, which was supported by the Scottish Government and resulted in guidance being issued to all IJBs by the Scottish Government in January 2020. This was designed to help empower IJBs to use the totality of resources at their disposal to better meet the needs of the population. It also provides greater clarity on the legal mechanism of Directions and the relationship between the three bodies.

# Governance and transparency (continued)

## Governance and scrutiny arrangements (continued)

The IJB benchmarked and evaluated its position against the 25 proposals outlined in the Ministerial Strategic Group's (MSG) report relating to the review of progress with integration of health and social care and produced an Action Plan, which was most recently updated in December 2019. The status of the actions is summarised below:

Key areas	Assessment
Collaborative Leadership and Relationship Building	Established
Integrated finance and financial planning	Established
Effective strategic planning for improvement	Established
Governance and accountability	Established
Ability and willingness to share information	Established
Meaningful and sustained engagement	Exemplary

It has concluded from its self assessment that local issues are being taken forward effectively. Those issues that remain outstanding are as a result of those requiring either a pan-Ayrshire or national solution, including use of Directions and third sector funding to be involved in the IJB.

The MSG has continued to highlight that delegated hospital budgets and set aside requirements still need to be fully implemented. North Ayrshire IJB has highlighted in its annual report that the full implementation is key to delivering the commitment to planning across the whole unplanned care pathway and partnerships must ensure that set aside arrangements are fit for purpose and enable this approach. This has not yet been achieved across Ayrshire and Arran. However, preparatory work is underway with the support of the Scottish Government, NHS Ayrshire and Arran and the other Ayrshire partnerships. This includes arrangements in relation to the use of Directions, Commissioning Plans and overall progression towards Fair Share allocations of resources.

It was anticipated that 2020/21 would be used as a shadow year for these arrangements, however, the work was put on hold due to the response to COVID-19 and timescales for progressing the work have not yet been agreed.

In response to the COVID-19 pandemic, all formal governance meetings were suspended until the end of July 2020. Consideration is currently being given to how meetings can recommence. The Performance and Audit Committee met on 25 June 2020 to consider the unaudited accounts and performance report, and the IJB met in full on 16 July 2020.

A range of delegated authorities currently form part of the Integration Scheme and Scheme of Delegation. There are powers which are reserved to the Board. The IJB agreed emergency governance measures on 19 March 2020 to ensure that any such matters could be progressed by consultation with the Chair and Vice Chair.

**2019/20 Conclusion:** The IJB continues to have robust governance and scrutiny arrangements in place and continues to identify areas for improvement. Appropriate arrangements have been put in place in response to the COVID-19 pandemic. The IJB should continue to review all governance documents to ensure they are up to date and fit for purpose.

The IJB should continue to make progress with implementing delegated hospital budgets and set aside requirements, in collaboration with the Scottish Government, NHS Ayrshire and Arran and other Ayrshire partnerships.

# Governance and transparency (continued)

## Strategic Plan

**2018/19 Conclusion:** The Strategic Plan 2018 – 2021 was approved by the Board in April 2018. This noted that all of the work being taken forward continues to be done within the context of a challenging financial and operational environment.

**2019/20 Update:** The Strategic Plan continues to complement North Ayrshire Community Planning Partnership's Local Outcome Improvement Plan (LOIP). In 2019, the HSCP supported North Ayrshire Council in updating its Council Plan and has supported NHS Ayrshire and Arran to develop the "Caring for Ayrshire" approach to its planning. A Workforce Development Strategy and action plan were agreed by the IJB in May 2019.

As the IJB moves into the final year of the current Strategic Plan, it recognises that the timing of the development of the new Plan will allow for a period of reflection on the COVID-19 response and a timely opportunity to engage with communities over the future of Health and Social Care services.

**2019/20 Conclusion:** The IJB continues to have a robust approach to strategic planning and is starting the development of the next Plan. It is important that this work is progressed in line with the updated MTFP to ensure a clear linkage with priorities, outcomes and resources.

## Openness and transparency

**2018/19 Conclusion:** We concluded that in general, the IJB has a good attitude to openness and transparency and there is a supportive culture that underpins this. However, we did note that this could be further enhanced by publishing the papers and minutes of the Performance and Audit online.

**2019/20 Update:** In response to our recommendation, the IJB's approach to openness and transparency has been further enhanced with the Performance and Audit Committee minutes now published on the website as part of the Board agenda papers. All performance reports should now also be published quarterly online, although only Q1 reports have been published for 2019/20. It is therefore important that this information is updated on a timely basis.

In an effort to increase engagement with local people and wider stakeholders; increase public knowledge of IJB/ HSCP business; ensure transparency of decision making; and increase accountability to the people it serves, including staff, the IJB has agreed to webcast all IJB meetings.

**2019/20 Conclusion:** The IJB continues to demonstrate a good attitude towards openness and transparency which has been further enhanced during the year including the webcasting of meetings. Further improvements can be made by ensuring data is published on the IJB website on a timely basis.

### Deloitte view – Governance and transparency

The IJB has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of North Ayrshire. The transition of new Board members during the year went smoothly and appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

We are pleased to note that further improvements have been made to the IJB's approach to openness and transparency in response to our audit recommendation, with all minutes of the Performance and Audit Committee now published on the website and IJB meetings now being webcast. Further improvements can be made by ensuring performance reports are published on the IJB website on a timely basis.

The IJB continues to have a robust approach to strategic planning and is starting the development of the next Plan. It is important that this work is progressed in line with the updated MTFP to ensure a clear linkage with priorities, outcomes and resources. This should take into account lessons learned from the COVID-19 pandemic.

# Value for money

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



## Areas considered

Our approach to the audit dimensions is risk focused. While we did not identify any specific risks in this area in our audit plan, we have continued to review the IJB's performance against its objectives, the IJB's reporting and monitoring of these and the actions taken to improve the performance of the IJB.

## Performance management

**2018/19 Conclusion:** The IJB has an embedded performance management culture supported by its performance management systems which analyse data, track progress and identify actions. In addition, there is regular performance information which is provided to the Performance and Audit Committee, IJB members, operational managers and is publicly reported.

**2019/20 Update:** The Board continues to have a well established performance management framework in place. It monitors against all the agreed national indicators including:

- Local Government Benchmarking framework indicators
- Ministerial Steering Group Indicators
- The NHS Local Delivery Plan targets
- HSCP National Health and Wellbeing Outcome Indicators

**2019/20 Conclusion:** The IJB continues to have an embedded performance management culture supported by its performance management systems, which analyse data, track progress and identify actions. In addition, there is regular performance information which is provided to the Audit and Performance Committee, IJB members, operational managers and is publicly reported. However, we recognise that, as a result of the COVID-19 pandemic, the normal performance monitoring arrangements are not in place and the Annual Performance Report will be published later in the year.

## Performance data

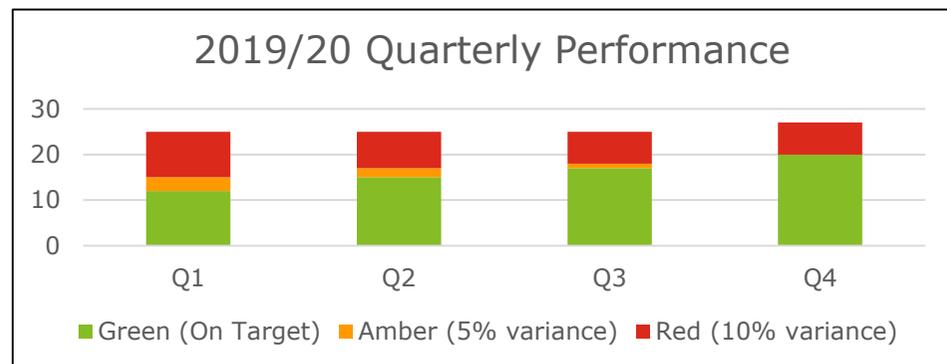
**2018/19 Conclusion:** While there was a decline in performance in some areas, the Partnership Performance Reports set out how the IJB intends to address each area of underperformance. In particular, there is a focus on trying to shift the balance of care from a hospital to a community setting.

**2019/20 Update:** From our analysis of performance data for 2019/20, we note that performance has improved during the year, with the number of Green (on target) indicators, increasing from 12 in Q1 to 20 in Q4. This is summarised in the chart on the following page.

# Value for money (continued)

## Performance data

### Performance data (continued)



The IJB recognises that whilst some measures of performance have exceeded targeted levels, there remains challenges for others. This includes challenges around workforce gaps, service demand pressures and the pace of transformational change not happening fast enough to ensure performance is achieved and improved in all areas.

The **North Ayrshire Council Best Value Assurance Report** published by the Accounts Commission in June 2020 highlighted the following in relation to the IJB's service deliver:

*"The IJB has made good progress and there are examples of changes to models of service delivery to improve outcomes for residents. These include:*

- *the pan-Ayrshire model for enhanced intermediate care and rehabilitation focused on high quality care and support through early intervention and prevention action*
- *the Trindlemoss facility*
- *Kilwinning Academy, which piloted basing a child and adolescent mental health services (CAMHS) worker and social worker in the school, with a focus on early intervention and preventing crisis; after a significant fall in crisis interventions and referrals this pilot is now being rolled out to other schools".*

It is too early to see the impact of these activities on the performance data and outcomes.

As noted on page 23, the HSCP developed a mobilisation plan detailing additional activities to support its response to COVID-19. The plan provided a focal point for the HSCP's response to the pandemic and set out clearly from the start how it would adapt and mobilise services to either expand or retract, re-prioritise activities and resources and also highlight the areas of greatest risk. Some of the key actions included:

- Reducing the level of delayed discharge;
- Maintaining as far as possible mental health services;
- Resilience and sustainability of care at home provision;
- Supporting adults with complex needs;
- Maintaining existing levels of care in children's services to protect vulnerable children;
- Establishing "enhanced" locality-based Community Hubs; and
- Sourcing and establishing reliable supply chains of Personal Protective Equipment.

It is important that as the Board moves to the next phase in responding to COVID-19 that it focuses on lessons learned and how some of the changes made can be sustained.

**2019/20 Conclusion:** Prior to the COVID-19 pandemic, while actions have been identified to change models of service delivery and improve outcomes, the impact is not yet evidenced in the performance data. The pace and scale of transformation needs to increase to address the challenges faced. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

## Value for money (continued)

### Deloitte view – Value for money

The IJB continues to have an embedded performance management culture supported by its performance management systems which analyse data, track progress and identify actions. In addition, there is regular performance information which is provided to Committee, IJB members, operational managers and is publicly reported.

Performance data has shown an improved position during 2019/20, however, there remain areas of specific challenge. Prior to the COVID-19 pandemic, while actions had been identified to change models of service delivery and improve outcomes, it was not yet clear in the performance data. The pace and scale of transformation needs to increase to address the challenges faced. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

# Best value

It is the duty of the IJB to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

## Duty to secure best value

1. It is the duty of the IJB to make arrangements which secure best value.
2. Best value is continuous improvement in the performance of the IJB's functions.
3. In securing best value, the IJB shall maintain an appropriate balance among:
  - a) The quality of its performance of its functions;
  - b) The cost to the IJB of that performance; and
  - c) The cost to persons of any service provided by the IJB for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the IJB shall have regard to:
  - a) Efficiency;
  - b) Effectiveness;
  - c) Economy; and
  - d) The need to make the equal opportunity requirements.
5. The IJB shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an IJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

## BV arrangements

The IJB has a number of arrangements in place to secure best value. This is evidenced through the Strategic Plan and the Annual Performance Reporting.

As noted elsewhere within this report, the IJB has an established governance framework and strong leadership and partnership working. There is a culture of continuous improvement, which is highlighted as part of the North Ayrshire Council Best Value Assurance Report published in June 2020.

The IJB recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is required to achieve medium to longer term financial sustainability.

In relation to the new requirements in relation to the Islands Act, North Ayrshire Council have added island assessment to its equalities and socio-economic assessment templates. As a result, every policy and strategy should now be automatically subject to island assessment. This equally applies to the IJB.

## Deloitte view – best value

The IJB has sufficient arrangements in place to secure best value and has a clear understanding of areas which require further development.

# Sector developments



# Sector developments

## Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

### An emerging legacy

#### How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

### Seven emerging legacies:

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

# Sector developments (continued)

## Responding to COVID-19 (continued)

### COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:**– Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing.
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html>

### COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>

# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

### Use of this report

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 19 August 2020

# Action plan

## Recommendations for improvement

No.	Area	Recommendation	Management Response	Responsible person	Target Date	Priority
1	<i>Performance reporting</i>	All performance reports should now also be published quarterly online, although only Q1 reports have been published for 2019/20. It is therefore important that this information is updated on a timely basis.	The HSCP plan to publish performance information more openly, there has been a challenge with the ISD information included in performance reports which is not public at the time of issue to PAC but it is anticipated we can work round this challenge.	Performance and Information Systems Manager	December 2020	Medium
2	<i>Lead partnership working papers</i>	In order to allow for more timely provision of the draft annual accounts and the supporting working papers, we recommend that the lead partnership recharges workings are produced earlier to share with the IJB, and clearly set out basis of all figures.	The Lead Partnership reporting arrangements are complex, discussion will be led through Ayrshire Finance Leads to prepare in advance of the 2020-21 year-end to ensure the recharges are clearer to follow.	Finance Manager	March 2021	Medium
3	<i>Set aside</i>	The IJB should continue to make progress with implementing delegated hospital budgets and set aside requirements, in collaboration with the Scottish Government, NHS Ayrshire and Arran and other Ayrshire partnerships (see page 27).	This pan-Ayrshire work has been delayed due to the Covid-19 response, but will require to be progressed during 2020-21 to ensure the 3 partnerships can work towards a fair share of resources.	Chief Finance and Transformation Officer	March 2021	Medium

# Action plan (continued)

## Follow-up previous year action plans

We have followed up the recommendations made in our previous year reports and note that three of the total seven recommendations have been partially implemented, but none have been fully implemented. We will continue to monitor these as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Performance and Audit Committee Papers and Minutes</i>	The IJB should consider publishing the papers and minutes of the Performance and Audit Committee online.	The Terms of Reference for PAC includes a requirement to submit copies of minutes to the IJB for review. The partnership will publish quarterly performance reports online during 2019-20.	Chief Finance and Transformation Officer	September 2019	Medium	<p><b>Partially implemented:</b> The PAC minutes are now publicly available. There is also an area on the IJB website for quarterly performance reports but this has not been updated since Q1 2019/20.</p> <p><b>Updated management response:</b> Reflected in new recommendation.</p> <p><b>Updated target date:</b> December 2020</p>
<i>Review of Governing Documents</i>	The key governing documents of the IJB should be reviewed and refreshed on a periodic basis to ensure that they are still fit for purpose.	A schedule of key governance documents including review timescales and responsible officers will be submitted to PAC in June 2019. Thereafter progress with document reviews will be monitored through PAC.	Chief Finance and Transformation Officer	March 2020	Medium	<p><b>Not implemented:</b> Documents still to be updated.</p> <p><b>Updated management response:</b> Whilst some governance documents were updated there has not been a full review undertaken and some documents are in progress for review. This will be picked up as governance meetings have now re-started.</p> <p><b>Updated target date:</b> December 2020</p>
<i>Scottish Government Medium Term Financial Strategy</i>	The planned update to the Board's Medium Term Financial Plan should take account of the financial implications of the Scottish Government five-year Medium Term Financial Strategy.	Updated MTFP will be presented to the IJB in August 2019 for approval.	Chief Finance and Transformation Officer	August 2019	Medium	<p><b>Not implemented:</b> The planned update of the MTFP has been delayed.</p> <p><b>Updated management response:</b> The MTFP was planned to go to the IJB in June 2020 for approval, but the production of this was impacted by Covid-19. This will be prepared alongside planning for the 2021-22 budget.</p> <p><b>Updated target date:</b> March 2021</p>

# Action plan (continued)

## Follow-up previous year action plans (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Budgeting process</i>	<p>We recommended the following improvements to the budget setting process:</p> <ul style="list-style-type: none"> <li>• There needs to be a link between the budgeted spend and the IJB's priorities as set out in the Strategic Commissioning Plan.</li> <li>• There needs to be improved links between the budget and outcomes: there is no information of the outcomes the IJB expects to be progressed (and to what extent) by the budget, which makes it difficult for the IJB to assess to what extent budgetary decisions are impacting on outcomes achieved.</li> </ul>	<p>The service change programme approved as part of the 2019/20 budget aligned the service change to the IJB priorities and impact on service delivery is taken into consideration. Consideration will be given to how this can be more explicit across the entirety of the IJB budget as part of the development of the MTFP. Recognition nationally (by the SG Health and Sport Committee) that there is difficulty in attributing budgets to the National Health and Wellbeing outcomes.</p>	Chief Finance and Transformation Officer	March 2020	Medium	<p><b>Not implemented:</b> The planned update of the MTFP has been delayed.</p> <p><b>Updated management response:</b> As above in relation to the MTFP, the linking of budget to outcomes has been a challenge nationally but where this will add value this will be considered as part of the MTFP refresh.</p> <p><b>Updated target date:</b> March 2021</p>

# Action plan (continued)

## Follow-up previous year action plans (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Medium Term Financial Plan	<p>The Medium Term Financial Plan (MTFP) should be refreshed to determine the current expected funding gap. As part of this plan, we would expect it to include:</p> <ul style="list-style-type: none"> <li>• Scenario planning to assess the funding gap when key assumptions are adjusted.</li> <li>• Detailed savings plans are identified in order to reduce the projected funding gap.</li> <li>• A fully integrated budget to allow effective resource planning.</li> <li>• Integration of the set aside budget.</li> </ul>	<p>The 2019/20 budget was approved by the IJB in March 2019 with the MTFP to follow. Unable to present estimate for more than one year at that time due to protracted negotiations over funding. MTFP to be refreshed over coming months and plan to take to IJB in August 2019. The MTFP has been delayed due to uncertainty around the level of funding being provided by NHS Ayrshire and Arran which has an impact of the scenario planning for the MTFP. The work in relation to set aside is being progressed on a pan-Ayrshire basis with SG support, this work is at the early stages with two planning meetings which have taken place focusing on Directions and data.</p>	Chief Finance and Transformation Officer	August 2019 (follow up with savings approval March 2020)	High	<p><b>Not implemented:</b> The planned update of the MTFP has been delayed.</p> <p><b>Updated management response:</b> The MTFP was planned to go to the IJB in June 2020 for approval, the production of this was impacted by Covid-19. This will be prepared alongside planning for the 2021-22 budget.</p> <p><b>Updated target date:</b> March 2021</p>

# Action plan (continued)

## Follow-up previous year action plans (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Strategic / Transformational Planning	<p>There should be a clear link between the Board's Strategic Plan and the MTFP to demonstrate what transformational work is to be carried out to achieve long term financial sustainability. A corporate workforce plan needs to be integral to this strategy.</p> <p>A change management programme should then be put in place, with appropriate tools and templates to allow the IJB to demonstrate that the benefits are being achieved.</p>	<p>Service change proposals for 2019-20 were aligned to the SP priorities. The Workforce Plan is to be presented to the IJB in May 2019.</p> <p>The MTFP will be refreshed over the coming months, plan to present to IJB in August to commence formal planning for 2020-22 budget proposals. The Change Management Programme is monitored via the Transformation Board. The Change Team support has been reviewed. Meetings with the approved lead, change team planning managers, finance lead takes place in March 2019 to agree timescales, milestones and savings trajectories.</p>	Chief Finance and Transformation Officer	August 2019	High	<p><b>Partially implemented:</b> Service change proposals are aligned to Strategic Plan priorities and the Workforce Development Strategy was approved by the IJB in May 2019. The planned update of the MTFP has been delayed.</p> <p><b>Updated management response:</b> The Transformation Board is established and is working well. The MTFP refresh has been delayed.</p> <p><b>Updated target date:</b> March 2021</p>

# Action plan (continued)

## Follow-up previous year action plans (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Openness and Transparency	Whilst decision making is transparent and subject to scrutiny and challenge, we recommend that the IJB consider how performance information could be made more publicly available on the IJB's website. This would improve levels of openness and transparency.	The key points from PAC meetings will be highlighted at the IJB in due course and agreed measures that link across statutory reporting and other plans that the HSCP input to will be publicised as a matter of course e.g. Council Plan updates, LOIP, MSG objective setting, CLAS, CP and Justice statutory returns, APR, etc. Further specific updates stemming from the monitoring of the change programme works will be presented to the IJB as required. Statutory information is currently in the public domain as is the council plan, LOIP and MSG objectives to date. Again, any significant changes to these that the HSCP feed into will be highlighted to the IJB at future meetings. PAC ToR updated to reflect a requirement for the minutes of PAC meetings to be taken to the IJB for information.	Chief Officer / Chief Finance and Transformation Officer	September 2019	Low	<p><b>Partially implemented:</b> The PAC minutes are now publicly available. There is also an area on the IJB website for quarterly performance reports but this has not been updated since Q1 2019/20</p> <p><b>Updated management response:</b> Refer to new recommended action which is accepted.</p> <p><b>Updated target date:</b> December 2020</p>

# Our other responsibilities explained

## Fraud responsibilities and representations



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in relation to completeness and accuracy of income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Performance and Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No issues to report.



# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

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**Independence confirmation** We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and our objectivity is not compromised.

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**Fees** The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £26,560, as analysed below:

	£
Auditor remuneration	18,300
Audit Scotland fixed charges:	
Pooled costs	1,790
Contribution to PABV	5,360
Audit support costs	1,110
<b>Total fee</b>	<b>26,560</b>

No non-audit services fees have been charged for the period.

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**Non-audit services** In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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**Relationships** We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

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# Quality of public audit in Scotland

## Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms.

A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

### Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

### Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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