

Audit of 2018/19 annual accounts (local government) - integration joint boards

Technical guidance note 2018/10(LG) - module 11



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1 Introduction

Purpose of module

1. This module provides guidance on applying the other modules of technical guidance note 2018/10(LG) to the audit of the annual accounts of an integration joint board (IJB). It also provides supplementary information on, and guidance on the risks of misstatements in, the following areas:
 - Presentation of surplus or deficit on the provision of services.
 - Accounting for operating expenditure.
 - Treatment of underspends and overspends.
 - Accounting for reserves.
 - Accounting in the absence of cash balances.
 - Accounting for 'hosted' services.
 - Calculating hospital services set asides.
 - Disclosure of related parties.
 - 'Relevant persons' in the remuneration report.

Contact point for this module

2. The contact point for this module of the technical guidance note is Neil Cameron, Manager (Professional Support) - ncameron@audit-scotland.gov.uk.

IJB overview

3. The [Public Bodies \(Joint Working\) \(Scotland\) Act 2014](#) establishes the framework for the integration of health and social care in Scotland. In most cases, the integration authority is a separate IJB, which are legal entities falling within section 106 of the *Local Government (Scotland) Act 1973*. The IJB has responsibility for the planning, resourcing and operational delivery of all integrated services. An integration scheme sets out the detail of the integration arrangement.
4. Under the Act:
 - a health board and one or more local authorities (referred to in the Act as 'constituent authorities') delegate functions and contribute funding to the IJB in respect of those functions
 - the health board sets aside amounts in respect of large hospital services for use by the IJB
 - the IJB commissions services from, and makes payment to, the constituent authorities for delivery of those services
 - some IJBs host speciality services for the health board area.

2 Application of other modules to IJBs

Summary of other modules' application

5. The following tables summarise the application of the other modules to IJBs, and either provide supplementary guidance in some areas or indicate the section of this module in which it is provided.

Overview module

6. All sections of the overview module apply to IJBs. The following table sets out supplementary guidance in some areas:

| Section | Supplementary guidance |
|--|--|
| Section 3 Proper accounting practices | Mandatory accounting guidance from LASAAC was provided in Additional guidance on accounting for the integration of health and social care . Refreshed guidance is expected from LASAAC for 2018/19, and Professional Support will advise auditors when it is available. |
| Section 4 Auditing standards | Where the auditor of an IJB does not also audit a constituent authority that hosts systems relevant to the IJB's financial reporting, auditors may need to refer to ISA (UK) 402 . Auditors should communicate at an early stage to ensure the required assurances can be agreed. |
| Section 5 Financial statements | Supplementary guidance on the presentation of the financial statements is provided at section 3 of this module. |

Modules 1 to 8

7. Modules 1,3 and 7 of the technical guidance note do not apply to IJBs and no further comment is required. The following table covers the application of modules 2, 4 to 6 and 8:

| Module | Applicability | Supplementary guidance and action |
|--|---------------|---|
| Module 2 Provisions, creditors and accruals | Applies | The main principles apply though many of the specific provisions and accruals referred to will not be applicable. |

| Module | Applicability | Supplementary guidance and action |
|-------------------------------------|----------------|---|
| Module 4 Retirement benefits | Not applicable | In accordance with paragraphs 29 and 37 of the LASAAC guidance , this would only apply if exceptionally the IJB has formally agreed to accept the ongoing retirement benefit liabilities for the Chief Officer or voting board members. |
| Module 5 Reserves | Applies | While IJBs have the power to hold reserves, and may have a general fund balance if they retain an underspend, they do not in practice operate other reserves. Supplementary guidance on the general fund balance is provided at section 3. |
| Module 6 Group financial statements | Not applicable | IJBs are unlikely to have to prepare group financial statements. However, IJBs are included in the constituent authority's group financial statements (probably as a joint venture). |
| Module 8 Grants and other income | Applies | Section 4 of module 8 applies to the funding contributions provided by constituent authorities. |

Module 9 Other financial statement areas

8. Most of the sections in module 9 of the technical guidance note are not expected to apply to IJBs in practice. The following table lists those that may apply along with some supplementary guidance:

| Section | Supplementary guidance and action |
|--|--|
| Section 2 Expenditure and funding analysis | This applies if there are any statutory adjustments. |
| Section 8 Cash and cash equivalents | IJBs do not hold cash or have bank accounts, and supplementary guidance on the impact of this is provided at section 3 of this module. |
| Section 11 Miscellaneous disclosures | Supplementary guidance on related parties and agency arrangements is provided at section 3 of this module. |

Module 10 Non-financial statements

9. All sections of module 10 apply to IJBs. The following table provides some supplementary guidance:

| Section | Supplementary guidance and action |
|---|---|
| Section 2 Remuneration reports | Supplementary guidance is provided at section 4 of this module. |
| Section 3 Management commentary | The management commentary should be signed by the Chief Officer, Chair, and IJB financial officer |
| Section 4 Annual governance statement | The annual governance statement should be signed by the Chief Officer and Chair. |
| Section 5 Other non-financial statements | The statement of responsibilities should be signed by the IJB financial officer. |

3 Financial statements

Risks of misstatement

10. The following paragraphs highlight potential risks of misstatement in respect of the financial statements, and set out actions for auditors to undertake to assess whether the IJB has followed the required treatment.

Surplus or deficit on the provision of services in the CIES is not properly presented

11. IJBs act as principal for all integrated services delegated to them. This means that in resource terms funding contributions received by the IJB from the constituent authorities are distinct from the commissioning expenditure incurred by the IJB, which is also distinct from the subsequent service delivery expenditure incurred by constituent authorities.
12. The items that IJBs are therefore required to present in the CIES are summarised in the following table:

| Item | Guidance |
|--|--|
| Funding contributions from constituent authorities | Unhypothesized funding should be presented as taxation and non specific income. Any funding provided for a specific service should be presented as income in the relevant service line. |
| Operating expenditure | This relates to the costs of operating the IJB, and should include the supply of staff and services by the constituent authorities. |
| Commissioning expenditure | This is the resource provided to constituent authorities to fund the delivery of the commissioned services. The analysis of service segments should be based on the IJB's internal management reporting. |

13. **Auditors should** assess whether the surplus or deficit on the provision of services in the 2018/19 CIES has been properly presented.

Operating expenditure is not properly accounted for

14. The [LASAAC guidance](#) covers IJB operating expenditure at paragraphs 11 to 19. The main issues are summarised in the following table:

| Issue | Guidance |
|--|---|
| Constituent authorities' own support services (e.g. HR, payroll, accommodation) | Support service cost incurred by constituent authorities when delivering commissioned services should not be included in IJB operating expenditure. However, they may be reflected in commissioning expenditure if the funding contributions include an allowance for them. |
| Support services provided by constituent authorities to IJB for a consideration (e.g. ledger and financial services) | Where the funding contribution is reduced as consideration for the provision of these services: <ul style="list-style-type: none"> • the funding contribution should be grossed up • the consideration should be shown as operating expenditure. |
| Support services provided by constituent authorities to IJB free of charge (i.e. service in kind) | IPSAS 23 states that a body may recognise the value of services in kind received as expenditure and income, but there is no requirement to do so. However, the LASAAC guidance recommends that the nature and extent of the arrangement is disclosed as a note in the IJB accounts. |

15. Auditors should assess whether:

- operating expenditure for 2018/19 is complete and free from misstatement
- support services provided by constituent authorities has been properly accounted for
- information has been disclosed on support services provided by constituent authorities free of charge.

Under/overspends are not accounted for in accordance with integration scheme

- 16.** The integration scheme should set out the process to agree and amend payments to the IJB and to deal with variances in spending on integration functions. The appropriate accounting treatment at the year end is determined by the approach adopted in the integration scheme. The integration scheme should specify where adjustments to funding contributions and commissioning expenditure are required to meet any under/overspend.
- 17.** Where the funding responsibility for an overspend is wholly with the overspending constituent authority, or any underspend is wholly retained by the authority, there will be no adjustments to either the funding contribution or the commissioning expenditure in the IJB accounts.
- 18.** However, the IJB may have responsibility for under/overspends, resulting in the funding contribution from one or more constituent authorities being formally varied/adjusted at the year end. The following table sets out various possible options under these arrangements:

| Option | Contribution adjustment | | No contribution adjustment | |
|--|-------------------------|--|----------------------------|--|
| | Funding Contribution | Commissioning Spend | Funding Contribution | Commissioning Spend |
| Underspend retained by constituent authority | Reduced | Reduced | No change | No change |
| Overspend borne by constituent authority | Increased | Increased | No change | No change |
| Underspend retained by IJB | No change | Reduced | No change | Reduced |
| Overspend borne by IJB | No change | Increased | No change | Increased |
| Overspend by one constituent authority borne by all (risk sharing) | Increased | Increased (for overspending authority) | Increased | Increased (for overspending authority) |
| Underspend by one constituent authority shared by all (risk sharing) | Reduction | Reduced | Reduction | Reduced |

19. **Auditors should** assess whether the funding contribution for 2018/19 has been properly adjusted in accordance with the integration scheme to reflect any underspends/overspends.

Reserves are not properly accounted for

20. Where an IJB had an accumulated surplus on the general fund at 31 March 2018, it can use some or all of the balance to fund expenditure during 2018/19. **Auditors should** confirm that:
- all expenditure has been charged to the CIES. Direct reserve accounting (whereby expenditure is charged direct to the general fund in the MIRS) is not permitted
 - reserves have not been recognised as income in the CIES
 - the CIES shows a deficit which reduces the general fund balance at 31 March 2019.
21. There is no statutory restriction that prevents an IJB from having an accumulated deficit on the general fund (i.e. negative reserve). However, auditors should encourage the IJB to remedy the funding situation in year to prevent this position arising. Where this is not possible, and the general fund presents an accumulated deficit at 31 March 2019, auditors should:
- consider an emphasis of matter paragraph in the independent auditor's report
 - discuss with Audit Scotland whether a statutory report should be considered.

Cash balances are presented

22. IJBs do not normally hold cash or operate bank accounts. Instead each constituent authority uses its funding contribution to pay staff and suppliers of the IJB directly. Where an IJB underspends for a financial year and can retain that underspend, it should recognise a debtor rather than a cash balance. The debtor represents the amount of funding contribution retained by each constituent authority that has not yet been used by the IJB.
23. The practical effect is that accounting entries that would normally involve cash (e.g. debit cash, credit income) should instead involve the debtor (e.g. debit debtor, credit income). An underspend (i.e. income exceeding expenditure) would also lead to a balance on the general fund which is matched by the debtor.
24. **Auditors should** confirm that any general fund surplus balance at 31 March 2019 is matched by a debtor rather than cash balance.

Hosted services are not properly accounted for

25. Some IJBs 'host' speciality services for the whole health board area on behalf of all the other IJBs, with the recipient IJBs being recharged for the services for their area or population. The integration scheme should set out how this operates in practice. The main options are set out in the following table:

| Option | Treatment |
|--|--|
| Amount recharged is the same as the costs incurred | It is expected that the hosting IJB is acting as an agent (explained in module 9). The costs and recharges of these services should not appear in the CIES of the hosting IJB (except for its own share of the service costs). |
| Hosting IJB retains any over/underspend for the whole area | The hosting IJB may be acting as principal. The costs and recharges of these services should be included in the CIES of the hosting IJB. |

26. **Auditor should** consider the terms of the integration scheme and assess whether:
- the hosting IJB is acting as agent or principal
 - the arrangements have been accounted for in 2018/19 in line with the requirements of the integration scheme
 - income and expenditure related to an agency arrangement has been excluded from the CIES.

Amount set aside for hospital services are not properly calculated

27. IJBs are responsible for the strategic planning of hospital services most commonly associated with the emergency care pathway. Health boards are required to calculate in accordance with

guidance issued under the Act an amount 'set aside' for the provision of these delegated services and advise the IJB accordingly.

28. This resource is within the control of the IJB and should be included in the overall funding contribution. **Auditors should** confirm that the amounts set aside included in the 2018/19 IJB annual accounts are as advised by the health board. The failure of the health board to calculate the set aside in accordance with the guidance does not represent a misstatement in the IJB accounts.

Information on related parties is not disclosed

29. The constituent authorities are expected to be related parties to the IJB. The [LASAAC guidance](#) covers related parties at paragraphs 60 to 62. IJBs should disclose:
- contributions received from each constituent authority
 - commissioning expenditure provided to each constituent authority
 - services in kind
 - amounts incurred by the IJB for the provision of key management personnel. This is expected to include non-voting board members (e.g. the IJB chief officer, chief social work officer, chief financial officer) where the IJB is charged by the constituent authorities for their services.
30. **Auditors should:**
- confirm that related party disclosures have been made for 2018/19
 - assess whether the disclosures are complete and free from misstatement.

4 Remuneration report

Risks of misstatement

31. The following paragraphs highlight potential risks of misstatement in respect of the remuneration report, and set out actions for auditors to undertake to assess whether the IJB has followed the required treatment.

Relevant persons not included in the remuneration report

32. The [LASAAC guidance](#) provides an interpretation of the requirements for the remuneration report at paragraphs 20 to 48. The guidance considers which individuals should be considered a 'relevant person' (as explained in module 10) for inclusion in the remuneration report and the related disclosures. This is summarised in the following table:

| Category | Relevant person | Disclosure |
|---|-----------------|---|
| Chairperson and Vice-Chairperson of the board | Yes | Names and their constituent authority Any remuneration received including taxable expenses Pension entitlement along with an explanation that the pension liability rests with the relevant constituent authority |
| Other voting board members | No | Names and their constituent authority (voluntary) A statement that the IJB does not pay allowances or remuneration to voting board members but that they are remunerated by their constituent authority |
| IJB chief officer | Yes | An explanation that the chief officer is regarded as an employee of the IJB although their contract of employment is with the relevant constituent authority Where not full time, only the remuneration related to the IJB post should disclosed Pension entitlement related to the IJB role along with an explanation of where the pension liability rests |
| Other office-holders | Possible | As for chief officer where 'relevant person' criteria met |

33. Officers and staff other than the chief officer are not regarded as employees of the IJB. However, a 'relevant person' includes any senior employee holding office with an IJB. Therefore direct employment status is not the only consideration to take into account. The chief finance officer is therefore likely to meet the definition of a relevant person by virtue of holding an office with the IJB. This may also apply to other officers and staff. **Auditors should** assess whether all relevant persons are included in the 2018/19 remuneration report.

