



Perth and Kinross Integration Joint Board

Annual Audit Report to the Members of Perth and Kinross Integration Joint Board and
the Controller of Audit

For the year ended 31 March 2017

29 September 2017

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About this report

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

This report is for the benefit of Perth and Kinross Integration Joint Board ("the IJB") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

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

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

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

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the IJB, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.



Executive summary

Key messages

Audit conclusions

We issued an unqualified audit opinion on the financial statements of Perth and Kinross Integration Joint Board (“the IJB”) following their approval by the Board.

We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy document.

The annual accounts, statement of responsibilities, governance statement and remuneration report were received at the start of the audit fieldwork and were supported by high quality audit work papers. We have no matters to highlight in respect of adjusted audit differences or independence.

Financial position

The IJB finished 2016-17 in surplus, due to Perth and Kinross Council underspending against the total allocated budget. The final spend commissioned from NHS Tayside was £145.7 million, being £2.7 million higher than the 2016-17 budget. The shortfall was funded by NHS Tayside in line with the integration scheme.

Reserves as at 31 March 2017 were £1.4 million, with a further £0.6 million held in the earmarked reserves of Perth and Kinross Council, pending approval for spend against robust proposals.

Financial management and financial sustainability

The IJB has effective financial management arrangements. Financial updates are provided to the Board three times a year which enables overspends to be forecast and actions taken to mitigate.

The Perth and Kinross Council Social Care Services and NHS Tayside Hospital and Community Services/ Other Hosted Services 2017-18 budget was approved by the Board in March 2017. The NHS Tayside Inpatient Mental Health Services budget was approved in June 2017. Further discussion also took place about the 2017-18 GP Prescribing budget during the June meeting, however as at the date of this report the budget has not been approved by the IJB.

Governance and transparency

The IJB undertook a governance self assessment, identifying recommendations for improvements. An action plan was formed, with time scales identified for all medium and high risk findings.

The IJB operates in a transparent manner, with meetings of the Board and the audit and performance committee being taken in public. Agendas, reports and minutes are available online for public download.

Introduction

Scope and responsibilities

Purpose of this report

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

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

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

Accountable officer responsibilities

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

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

Auditor responsibilities

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

Scope

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

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

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the audit and performance committee, together with previous reports to the audit and performance committee throughout the year, discharges the requirements of ISA 260.

Financial position

Overview

The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the IJB should therefore be prepared in accordance with the 1973 Act and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

The Board is responsible for the strategic planning and delivery of health and adult social care services in Perth and Kinross. The Board is responsible for services as set out in the Integration Scheme, which includes 'hosted' services which are provided by the IJB on behalf of the other integration joint boards in Tayside: Dundee City and Angus.

IJB financial management overview

The IJB budget process begins in September each year with final approval by March. Delegated baseline budgets for 2017-18 were subject to due diligence and comparison to actual expenditure in previous years.

The Board does not have any fixed assets, nor does it directly incur expenditure or employ staff (other than the chief officer and the chief financial officer). All funding and expenditure is delegated to the partner organisations and is recorded in the partner organisation's accounting records.

Funding contributions from Perth and Kinross City Council £48.2 million	Funding contributions from NHS Tayside £145.7 million	Net expenditure £192.5 million	Surplus on provision of services £1.4 million
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Legislation empowers the Board to hold reserves. The integration scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. It highlights that in the event of an underspend at the year end, it will be retained by the IJB as reserves following agreement with the partners, unless the following conditions apply:

- where a clear error has been made in calculating the budget requisition or;
- in other circumstances agreed through a tri-partite agreement between the partners and the IJB.

Where a year end overspend in the IJB's budget is projected the chief officer and chief finance officer must take remedial action to prevent this overspend materialising. In the event that the remedial action cannot prevent the overspend, the IJB will present a recovery plan to the partners, to address in year overspends and any recurring overspends for future financial years without impacting on the achievement of performance outcomes.

In the event that an overspend remains following the application of a recovery plan, use of reserves or, where the Strategic Plan cannot be adjusted, the following arrangements will apply:

- in 2016-17 the overspend is met by the partner with operational responsibility, unless agreed otherwise through a tri-partite agreement between the IJB and the partners; and
- in 2017-18 onwards, the overspend may be allocated based on each partner's proportionate contribution to the IJB's budget requisition for that financial year on a like for like basis.

Financial position (continued)

2016-17 financial position

The IJB financial statements are prepared on a going concern basis. A surplus of £1.4 million was reported in the comprehensive income and expenditure statement (“CIES”), which resulted in £1.4 million net assets in the balance sheet as at 31 March 2017.

Comprehensive income and expenditure statement

The IJB’s planned breakeven position for 2016-17 was reliant on the early invoking of the risk sharing agreement due to the level of unidentified savings within GP prescribing and in patient mental health. This was based on expenditure and income of £49 million contributed by Perth and Kinross Council (“PKC”) and £143 million from NHS Tayside. The year end outturn was a surplus of £1.4 million.

An underlying overspend of £2.8 million was reported against services where operational responsibility lies with NHS Tayside. In line with the risk sharing agreement for 2016-17, NHS Tayside devolved further non-recurring budget to the IJB to balance income with expenditure.

Against social care budgets, where operational responsibility lies with PKC, an underspend of £2.6 million was reported. Of this £1.9 million had been forecast in the latter months of the financial year. As the Integration Scheme sets out, underspends may be retained by the IJB as reserves, subject to the agreement of the relevant body. Agreement was reached with PKC prior to 31 March 2017 that savings of £1.4 million projected earlier in the year would be retained by the IJB to meet agreed social care priorities. The balance of £0.598 million, which was anticipated additional savings in the year, was retained by PKC in an earmarked reserve for the IJB against which priorities will be proposed for agreement in 2017-18. The “unanticipated” additional £0.565 million further underspend was also retained by PKC whilst further discussions take place around social care priorities.

The NHS Tayside overspend is made up of some key under and over spends as set out:

- GP prescribing: overspend £2.0 million. This is based on GP prescribing expenditure to January 2017 (a two month delay exists across Scotland in receiving actual expenditure information and the year end position). This is due to a £1 million savings shortfall, together with an overspend of £951,000. The IJB’s variance from Scottish average costs is increasing; the cost per weighted patient increased by 6.0% locally for the period to December 2016, compared with a Scotland-wide increase of 2.9% for the same period. (continued ...)

Expenditure	2016-17 Budget (£000)	2016-17 Actual (£000)
Older peoples service/ Physical disabilities	62,102	60,422
Learning disabilities	17,359	16,760
Mental health and addictions	5,898	5,874
Planning/Management/Other services	7,729	7,724
Prescribing	26,187	28,190
General medical services	22,157	22,017
Family health services	13,448	13,431
Hosted services	19,764	20,751
Large hospital set aside	17,672	17,672
Total expenditure	192,316	192,541
Breakdown of variance:		
Health	142,924	145,698
Social Care	49,392	46,843

Source: draft 2016-17 PKC IJB Annual Performance Report



Financial position (continued)

- Older people service/ Physical disabilities: underspend £1.6 million. This is due to higher than anticipated income and client turnover within home care placements, as well as the re-assignment of staff within Aberfeldy Community hospital which is currently non-operational.
- Hosted health services: overspend of £987,000. Higher locum costs within forensic services and inpatient mental health, along with delays in implementing prisoner healthcare planned savings due to recruitment issues led to this overspend.

Scottish government funding

The Scottish Government provided funding to IJBs across Scotland for use to transform services, support integration and to reduce delayed discharges. A total of £2.7 million was received in 2016-17 through the recurring Integrated Care Fund ("ICF"). £6.54 million was received through Social Care funding, which included funding to support with the implementation of living wage. Amounts to reduce delayed discharge was also received from the Scottish Government, being £0.8 million.

Related party

NHS Tayside receives funding from the Scottish Government to support the operation of the IJB. As the services delivered relating to this funding are carried out operationally by PKC, it invoices NHS Tayside for the services.

There is also a longstanding payment from NHS Tayside to PKC for social care packages, this totalled £6.26 million and was invoiced in the same way as set out above. This payment is to support PKC to deliver social care within the community for those discharged from hospital.

Therefore there was a £15 million payment from NHS Tayside to PKC, disclosed in the related parties note within the annual accounts.

Balance sheet

The debtors balance at the year end arose from the underspend within the PKC budget. IJB 'cash' is held by the partner organisation due to the IJB not having a bank account, leading to a debtor to the IJB.

Balance sheet	2016-17 £000	2015-16 £000
Short term debtors	1,386	-
Current assets	1,386	-
Net assets	1,386	-
Usable Reserve : General fund	(1,386)	-
Total reserves	(1,386)	-

Financial statements and accounting

Audit conclusions

Audit opinion

Following approval of the annual accounts by the audit and performance committee we issued an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2017, and of the surplus for the year then ended.

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

Financial reporting framework, legislation and other reporting requirements

The IJB is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

Statutory reports

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

Other communications

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

Audit misstatements

There were no audit misstatements identified during the audit.

Written representations

Our management representation letter contains our standard representations.

Financial statements and accounting

Audit conclusions (continued)

Materiality

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

We used a materiality of £1.8 million for the IJB's financial statements. This equated to 1% of budgeted gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. Our performance materiality was £1.35 million. We report all misstatements greater than £0.09 million.

Forming our opinions and conclusions

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

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

Financial statements preparation

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

In advance of our audit fieldwork we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. We arranged a meeting with management to discuss our requirements and expected timescales. We will continue to refine our prepared by client requests and work with management to improve the quality of audit schedules.

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

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

Significant risks (page 10 of this report):

- management override of controls fraud risk.

Other focus areas (page 11 of this report):

- completeness and accuracy of expenditure; and
- financial statement disclosure.

Wider scope work (page 14 of this report):

- financial sustainability;
- financial management; and
- governance and transparency.

Financial statements and accounting

Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Fraud risk from management override of controls</p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as the standards consider management to typically be in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the IJB.</p> <p>Strong oversight of finances by IJB management, as well as management at the partner level, provides additional review of potential material errors caused by management override of controls.</p> <p>In line with our methodology, we carried out appropriate controls testing over the budget monitoring control, and agreed the total income, expenditure and debtor balances to confirmations from the partner organisations.</p>	<p>There were no specific circumstances identified which would indicate additional risk of management override of controls. No overrides of controls were identified.</p>

Financial statements and accounting

Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Completeness and accuracy of expenditure</p> <p>The IJB receives expenditure forecasts from Perth and Kinross Council and NHS Tayside. There is a risk that actual expenditure and resulting delegated income is not correctly captured.</p>	<p>The closing positions with the partner organisations were agreed to confirmations from each body, and the split of expenditure on the comprehensive income and expenditure statement agreed to reports from the partner organisations.</p> <p>The IJB does not post journals throughout the year, with financial processing taking place at the partner bodies. Consolidation adjustments are posted as part of the year end accounts preparation process. These post-closing entries were tested without exceptions identified.</p>	<p>The expenditure disclosed in the accounts is complete and accurate.</p>
<p>Financial statement disclosure</p> <p>The IJB prepared financial statements for the first time in 2015-16 for the period from October 2015 to March 2016. We note that the previous auditor, Audit Scotland, noted that the financial statements for this period were not of a sufficient standard, with significant monetary and presentational adjustments required to the unaudited accounts.</p> <p>There is a risk in the IJB's first full accounting year that the financial statements and disclosures will not be prepared to the required quality and by the agreed timescales.</p>	<p>The draft IJB financial statements were compared against the CIFPA local authority disclosure checklist as completed by IJB management. No significant omissions were identified.</p> <p>Furthermore, the draft financial statements were reviewed against the LASAAC (The Local Authority (Scotland) Accounts Advisory Committee) guidance on integration joint board accounting. No omissions were identified.</p>	<p>Some small amendments were identified and actioned, however on the whole the financial statements had been prepared to a high standard. We consider that the annual accounts are prepared in accordance with financial reporting requirements.</p>

Financial statements and accounting

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the financial statements, similar to the Companies Act requirements for listed entity financial statements.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts and are content with the proposed report.</p> <p>We provided management with some minor suggestions relating to how the management commentary could be enhanced and where additional information disclosures should be made.</p>
Remuneration report	<p>The remuneration report was included within the unaudited financial statements and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the financial statements and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
Annual governance statement	<p>The statement for 2016-17 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides details over the main features of the IJB's governance framework, the system of internal control, review over the adequacy and effectiveness of governance framework and an action plan for 2017-18.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.</p>

Financial statements and accounting (continued)

Qualitative aspects and future developments

Qualitative aspects

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

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

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

There were no new accounting standards adopted by the Code during 2016-17 which affected the IJB.

There are no significant accounting estimates.

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

Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the Code for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers*. A separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018/19* will be issued as a companion publication to the Code setting out the approach to these two standards.

Other changes to the 2017 Code include an amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report, and updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard.

Wider scope and Best Value Introduction

Audit dimensions introduction

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

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

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



Wider scope and Best Value

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the IJB is planning effectively to continue to deliver its services. This is inherently a risk to the IJB given the challenging environment where funding is reduced in real terms and efficiency savings are required.

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

Budget setting

The IJB receives budget allocations from NHS Tayside and PKC. The 2017-18 NHS Tayside budget allocation contains savings targets which are not all supported by detailed plans. There is a risk sharing agreement with both bodies for 2016-17 and 2017-18. For 2018-19 these arrangements may be extended on agreement of both partner bodies. This agreement sets out that overspend during this period would be met by the partner with operational responsibility. This agreement gives the IJB comfort with regards to overspends in 2017-18, however, there is a risk going forward regarding ongoing budget balance, specifically in the context of the challenging NHS Tayside budget.

The IJB's budget for 2017-18 is balanced via a net savings target of £4.2 million is required. Savings have been identified across social care, hospital and community health and other hosted services. However a recurring gap of £2 million remains in respect of GP prescribing and inpatient mental health.

Expenditure pressures have also been identified which include the first full year of implementation of the living wage, care home contract rates, service demand pressures over care at home and residential placements and within drug and alcohol services. Income is expected from the Scottish Government to offset Living Wage expenditure.

NHS Tayside

A review was carried out by Scottish Government NHST Assurance and Advisory Group over NHS Tayside. The executive management team has set out the ongoing actions it is taking that respond to these recommendations.

Key recommendations included:

- NHS Tayside should take urgent and robust action in order to maximise the likelihood of achieving the planned in-year savings and delivery of the projected financial outturn for 2017-18.
- Over the next three months, NHS Tayside should subject its financial planning framework to rigorous and comprehensive review
- Over the next six months, NHS Tayside should continue to work with its partners to agree the content and a realistic timeline for completion of the Integrated Clinical Strategy

The Chief Finance Officer meets regularly with all budget holders to review the 2017-18 financial position and to identify slippage on delivery and actions necessary to deliver a balanced position. During 2016-17, a financial planning and budgeting process was implemented by the Chief Finance Officer to ensure a consistent approach across health and social care budgets. This approach sets the conditions for a robust joint approach to financial planning for 2018-19 that supports the identification of savings plans for future years.

NHS Tayside 2017-18 budget

During the 2017-18 budget setting the IJB was informed that the Chief Finance Officer cannot recommend approval of the budget proposition from NHS Tayside for GP prescribing and inpatient mental health services. In response, reports were presented during the IJB meeting in June to set out plans to control spending and meet savings targets.

Wider scope and Best Value

Financial sustainability (continued)

Inpatient mental health

Mental health services in Tayside have undergone significant change, however we understand that the decision to retain inpatient services within each locality of Tayside has resulted in the level of inpatient spend is substantially higher than the Scottish average.

In line with the assumed optimum delivery of mental health service provision and across Scotland, the IJB identified the balance of care should shift to community-based services. Through remodelling adult inpatient mental health services in a way that makes better use of a skilled workforce, the IJB plans to achieve savings targets while still providing a safe service that provide patients with the “right care in the right place at the right time”.

An options report was presented to IJB members at the June meeting. The report set out options and the estimated cost of each option. The preferred option was a single site for General Adult Psychiatry. This option would allow for a Centre of Excellence which is sustainable in terms of work force, the environment and affordability. The total projected variance (Budget Release) for this option was estimated at £2.4 million and was the highest of four options considered.

GP prescribing

The biggest pressure on the IJB’s financial sustainability is the GP prescribing budget and the lack of agreed budget or plan to reduce costs. The IJB Chief Finance Officers for Tayside wrote to the NHS Tayside Director of Finance advising that the target being set is not deliverable in the 2017-18 year. Whilst there is full recognition of the need for a significant step up in efforts to reduce expenditure, this will not happen immediately. A change in culture will be required including a new way of working with GPs across Perth & Kinross to deliver a sustainable reduction in spend.

As at 13 March 2017, savings plans of £0.4 million had been identified by

the NHS Tayside Prescribing Support Unit.

A three year GP engagement plan, focused on sustainable prescribing and the wider transformation of care was presented to the IJB in June 2017. It was resolved that: an investment of £0.3 million per annum for IJB Development funding for three years in GP Prescribing and Locality Engagement Programing was to be approved subject to annual review by the board and; the clinical director will provide quarterly reports to the IJB providing progress on implementation linked to the three year Prescribing Improvement Plan.

The IJB recognises that it needs a sustainable GP prescribing budget, and does not consider it appropriate to use other service underspends to close the gap. We recommend a budget for 2017-18 is approved as soon as possible and an action plan agreed between the IJB and two partner bodies, NHS Tayside and Perth and Kinross Council.

Recommendation one

PKC

PKC also has financial pressures, total revenue funding from the Scottish Government decreased overall by 7% in real terms since 2010-11. The Council has identified savings requirements (£65.3 million) over the next five years in order to continue to provide services to meet demand. Results for 2017-18 to date identify that the Council is operating broadly in line with budget.

Reserves strategy

The IJB approved a reserves policy in March 2017 describes the purpose for which reserves can be used. which sets out the statutory and regulatory framework for reserves, the operation of these reserves and the role of the Chief Finance Officer in determining the adequacy of reserves held by the IJB. The challenging future financial position for both partner bodies will make it difficult for the Chief Finance Officer to set a reserves target over the next three years.

Wider scope and Best Value

Financial sustainability (continued)

Going concern

The annual accounts are prepared on a going concern basis. The IJB is in its infancy and is at the start of plans to transform services. However it has reserves of £1.4 million and a risk sharing agreement for 2017-18; reducing its exposure to significant overspends. In light of this position, the strong management of resources and the commitment from the two partner organisations we concur with the going concern basis.

Conclusion

The IJB is operating in a difficult landscape, with budget constraints on both of its partner organisations and ongoing transformation programmes at each. The main financial risk to the IJB is the level of funding delegated relative to the growing demand on services in particular, the GP prescribing budget.

Progress is being made to identify efficiency savings in the short term and to deliver transformational change over the longer term in order to address some of the financial challenges faced.

Management needs to ensure that the robust financial plans are in place at each partner organisation, to reduce the risk of relying on integration and change funds to bridge gaps in the mainstream budget inappropriately.

In order for the IJB to be financially sustainable, efficiency savings need to be identified and quantified, and we acknowledge that the IJB and partner organisations are in the process of delivering change programmes with this in mind.

Wider scope and Best Value Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is a risk given that the IJB is in its first year of directing services.

Financial monitoring

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

The IJB produces a finance update for every IJB meeting. The update presents information on IJB and Partnership year end over/under spend forecast, a summary of savings planned and savings booked and narrative to support to figures. The base budget position is not reported, only the over/under spend forecast against the budget.

Recommendation two

From our review of the minutes, it is evident that there is an appropriate level of scrutiny from IJB members, and these reports have allowed the IJB to address overspends in a timely fashion.

The Council provides induction and ongoing training for both elected members and other Board members. Board members can request training sessions on specific areas, either as group session or one to one. Feedback is sought after training sessions to improve and develop future sessions.

Internal audit reviews

The IJB does not have its own an internal audit function. Internal audit is supported by, and reviews carried out by, PKC and NHS Tayside internal audit team. Reviews carried out specific to the IJB are shared with the Board and audit and performance committee.

Internal audit completed one review during 2016-17 over Delayed Discharge. The review was concluded to be "Broadly Satisfactory". Recommendations were graded as priority two, important issues that require the attention of senior management.

The annual audit report, presented to June audit committee concluded that reliance can be placed on the IJB's governance arrangements and system of internal controls for 2016-17.

We are able to conclude that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system.

Finance function capacity

The finance team is led by the chief financial officer, a qualified Chartered Accountant who has a number of years experience working within within the NHS Lothian as the Head of Finance and more recently as the Head of Efficiency and Productivity. The partnership accountant provides significant support to the day to day financial management and control within the IJB. This position is currently fixed term due to end in July 2018. We recommend that the role of Partnership Accountant is changed to a permanent position to ensure the CFO can focus on high level strategic decision making as opposed to the operational running of the IJB.

Recommendation three

Conclusion

The IJB has robust controls over the monitoring of expenditure against budget, with regular reports going to public meetings of the IJB.

Financial capacity is appropriate, however the existence of the post of Partnership Accountant should have greater certainty to ensure ongoing support within the finance team.

Wider scope and Best Value

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. This is a risk for the first year of directing services, as arrangements become mature.

The IJB is developing scrutiny and governance arrangements, as this is the early stages of maturity there are some areas for development.

We have obtained an understanding of the IJB's governance and scrutiny arrangements and proposed developments to the governance framework and conclude on the appropriateness of these in our annual audit report.

Governance framework

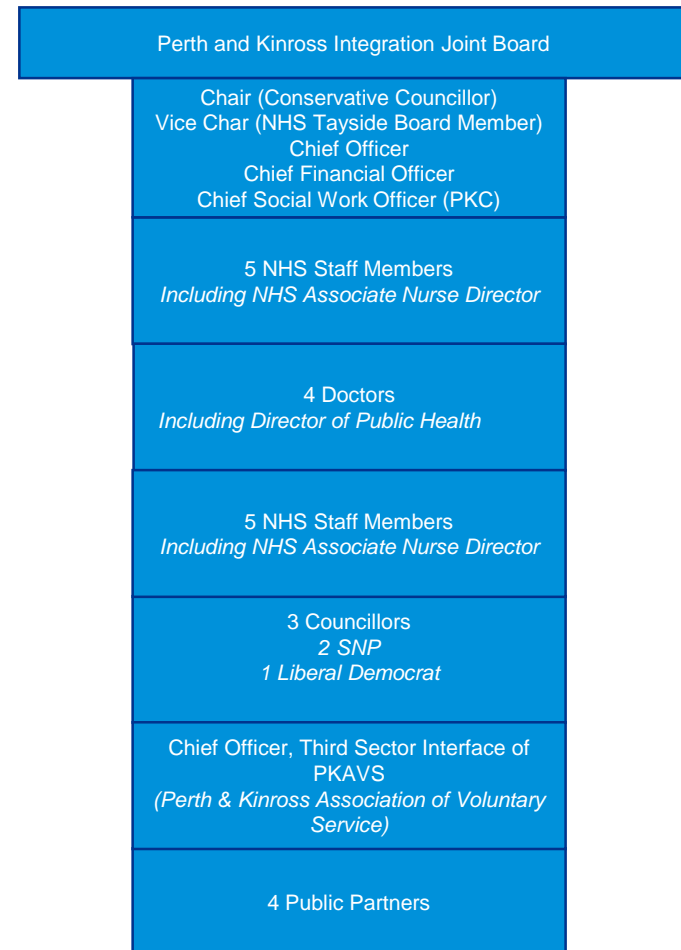
The integration scheme between PKC and NHS Tayside sets out the key governance arrangements.

The Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the IJB and for monitoring the adequacy of these arrangements.

The Board comprises a wide range of service users and partners including elected councillors nominated by PKC and directors nominated by NHS Tayside.

The IJB appointed a Chief Officer who provides overall strategic and operational advice to the Board and is accountable for the delivery of services.

The board is made up of Councillors, IJB Chief Officer and Chief Financial Officer, PKC staff, NHS Tayside Staff, Doctors, Public Partners and a representative from the third sector.



Wider scope and Best Value

Governance and transparency (continued)

The Chief Officer is also accountable to both the Chief Executive of PKC and the Chief Executive of NHS Tayside and provides regular reports to both the council and the NHS board.

The Board and Audit and Performance Committee meet on a regular basis throughout the year. We review minutes from each to assess their effectiveness. We also periodically attend meetings of the Audit and Performance Committee.

Risk management

The IJB has developed a strategic risk register which was presented to the board at the March 2016 meeting. The register identifies risk headings, current internal controls, responsible lead, strength, RAG rating and future improvement actions for each risk identified. The risk register has not been presented to the board since March 2016.

Governance self assessment

The IJB used CIPFA Guidance; Delivering Good Governance in Local Government Framework to review its governance arrangements, and this included carrying out a self assessment review of the IJB's governance arrangements. This provided assurance that key governance policy's and arrangements are in place, and an improvement action was identified for any high or medium risk findings. From the self assessment 38 low risk findings, 39 medium risk findings and 17 high risk findings were identified. An improvement action plan and time scale was identified for all medium and high risk findings.

Internal control

PKC and NHS Tayside are the partner bodies. All financial transactions of the Board are processed through the financial systems of the partner bodies and are subject to the same controls and scrutiny as the council and health board, including the work performed by internal audit.

Internal Audit

Internal audit provides the Board and Chief Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. Each partner organisation has its own internal audit service, with Chief Internal Auditor of NHS Tayside also holding the appointment of Chief Internal Auditor of the IJB.

The Board's Chief Internal Auditor uses the results of the audit work carried out at Perth and Kinross Council and NHS Tayside to form an opinion on the Board's systems of governance, risk and internal control. For 2016-17 the Board's Chief Internal Auditor concluded that reliance can be placed on the IJB's governance arrangements and systems of internal controls for 2016/17.

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ("PSIAS"), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We reviewed internal audit reports and conclusions, and through discussion obtained the views of internal audit of risks of fraud within the IJB.

The review of internal audit reports and conclusions did not indicate additional risks and there was no impact on our audit approach.

Fraud

Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by one of the partner bodies internal audit sections. Since the IJB does not hold its own bank account and transactions are processed through the partner bodies management consider the risk of fraud to be low.

Wider scope and Best Value Governance and transparency (continued)

Transparency

The public should be able to hold the Board to account for the services it provides. Transparency means that the public has ready access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.

Full details of the meetings held by the Board and, as of January 2017, the Audit and Performance Committee are available through PKC website. Members of the public can access committee papers and minutes of meetings, with exempt items minimised as much as possible. We have not found any evidence to suggest that information is unjustifiably withheld from public scrutiny. Furthermore, members of the public can attend meetings of the Board.

Overall we concluded that the Board is open and transparent.

Conclusion

We consider that the IJB has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.

Wider scope and Best Value (continued)

Value for money

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

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

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

Performance management

Integration authorities are required to contribute towards nine national health and wellbeing outcomes which are intended to focus on the needs of the individual to promote their health and wellbeing, and in particular, to enable people to live healthier lives in their community.

In order to review performance the IJB developed a performance management framework. An annual performance report was presented to the Audit and Performance committee during the June meeting. The report summarised performance within 2016-17 and set out improvement measures for 2017-18.

Value for money in key decisions

The IJB has faced difficult decisions over the course of the year, driven by financial challenges.

The board considers and discusses difficult decisions throughout the year as appropriate. These are supported by options appraisals and business cases where appropriate.

Conclusion

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



Appendices

Mandated communications with the audit performance and committee

MATTERS TO BE COMMUNICATED	LINK TO AUDIT AND PERFORMANCE COMMITTEE REPORTS
Relationships that may bear on the firm's Independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Combined Code)	See appendix three.
The general approach and overall scope of the audit, including levels of materiality, fraud risks, business risks and audit responses and engagement letter (ISA 260)	Main body of this paper.
Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report (ISA 260)	There were no such disagreements.
The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260)	There are no such matters to report.
Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements (ISA 260)	There were no audit adjustments required to the draft financial statements which could have had a material effect on the IJB's financial statements.
The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 260)	Accounting policies and practices selected by the IJB are appropriate for the organisation and are in line with the requirements of the Local Authority code of Practice.
The auditor's view on valuations and related disclosures (ISA 260)	There are no valuations within the IJB's financial statements.
Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 260)	We have reviewed management's assessment that the IJB is a going concern and agree with this assessment.
Expected modifications to the auditor's report (ISA 260)	There are no modifications to the auditor's report.
Other matters warranting attention by those charged with governance, such as effectiveness of internal controls relevant to financial reporting, material weaknesses in internal control, questions regarding management integrity, and fraud involving management (ISA 260 and ISA 240)	There are no such matters to report.

Appendix two

Appointed auditors responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE'VE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	We have undertaken our statutory duties and complied with professional and ethical standards. Our independence letter is at page 24.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.	Page 3 summarises the opinion we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration reports.	Page 8 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	No notifications to Controller of Audit required.
Corporate governance	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 19 sets out our conclusion on these arrangements.
Wider audit dimensions	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> — effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets; — suitability and effectiveness of corporate governance arrangements; — financial position and arrangements for securing financial sustainability; — effectiveness of arrangements to achieve best value; and — suitability of arrangements for preparing and publishing statutory performance information. 	Our consideration of the wider dimensions is outlined on pages 14-20.

Appendix three

Auditor independence

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

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

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

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

We will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

General procedures to safeguard independence and objectivity

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

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

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

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

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

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

The audit fee charged by us for the period ended 31 March 2017 was £20,000 (excl VAT). No other fees were charged in the period. No non-audit services were provided to the IJB and no future services have been contracted or had a written proposal submitted.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP



Appendix four

Action plan

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

We present the identified findings across four audit dimensions:

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

Priority rating for recommendation

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

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

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
<p>1. GP Prescribing budget (page 16) <i>Financial sustainability dimension</i></p>		Grade one
<p>During the 2017-18 budget setting the board was informed that the Chief Finance Officer could not recommend approval of the budget proposition from NHS Tayside for GP prescribing. As at August 2017 there is still no approved 2017-18 GP prescribing budget or an agreed action plan to form a sustainable budget.</p> <p>Risk:</p> <p>The Board may be forced to use underspends from other areas to bridge the gap in the GP prescribing budget. This is not sustainable and there is a risk that the other services would be reduced as a result.</p>	<p>A budget for GP prescribing in 2017-18 should be finalised. In forming it the IJB should meet with NHS Tayside and agree a strategic action plan to address the prescribing spend. A sustainable prescribing position needs to be formed and the 2018-19 GP prescribing budget should be agreed before the start of the financial year.</p>	<p>Management response:</p> <p>Agreed. The Chief Officer and Chief Finance Officer have written to both Parent Bodies asking for a formal discussion to take place around the sufficiency of the GP Prescribing budget and the implications for risk sharing arrangements moving forward.</p> <p>Responsible officer: Rob Packham / Jane Smith</p> <p>Implementation date: October 2017</p>

Action plan (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2. Financial Management; Reporting of financial position to the IJB (page 17) <i>Financial management dimension</i>		Grade Two
<p>The IJB produces a finance update for each IJB meeting. The update presents information on IJB and Partnership year end over/under spend forecast, a summary of savings planned and savings booked and narrative to support to figures. The base budget position is not reported, only the over/under spend forecast against the budget.</p> <p>Risk:</p> <p>IJB members are not able to track spending in year against budget and identify significant over spends in order to implement savings plans.</p>	<p>The financial update should present the base budget position and variance year to date against this base budget position. This would allow appropriate levels of scrutiny over balances depending on the level of variance reported against budget.</p>	<p>Management response:</p> <p>Agreed. The base budget position will now be incorporated as part of routine monthly reporting.</p> <p>Responsible officer: Jane Smith</p> <p>Implementation date: October 2017</p>
3. Partnership accountant post (page 17) <i>Financial management dimension</i>		Grade Two
<p>The partnership accountant provides significant support to the day to day financial management and control within the IJB. The position is on a fixed term basis which ends in July 2018.</p> <p>Risk:</p> <p>Without the role of partnership accountant the CFO will have less time to focus on higher level strategic decisions, as a result of having to spend time on the operational running of the IJB.</p>	<p>It is recommended that a longer term solution is approved, either through a permanent post or extension of the temporary one with enough notice to enable the CFO to plan activities.</p>	<p>Management response:</p> <p>Agreed. The Chief Financial Officer is taking all necessary steps to ensure this key post is appointed to on a permanent basis.</p> <p>Responsible officer: Jane Smith</p> <p>Implementation date: September 2017</p>

Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2015-16 audit and their current status.

Number recommendations raised	Implemented	In progress	Overdue
4	3	2	-

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
1. Public Notice Period			
The Local Authority Accounts (Scotland) Regulations 2014 require the board to publish on its website; a copy of the annual accounts submitted to the auditor, clearly identified as an unaudited version, a public notice of the right of interested persons to inspect and object to its accounts. The public notice was not completed within statutory deadlines and was only published through Perth & Kinross Council's website on 28 July 2016.	The board should ensure compliance with the publication requirements of the 2014 regulations and ensure its website is updated timeously with the required information.	Agreed the public notice deadline would be met for year 2016-17.	The 2016-17 unaudited accounts were published online in line with the Public Notice by 28 June 2017.
2. 2015-2016 Budget not approved			
The board did not agree a budget for 2015-16 and did not monitor the actual cost incurred.	The budget should be established and agreed prior to the commencement of the year and monitored regularly throughout the year.	The CFO will work with NHS Tayside and Perth and Kinross Council to align a budget setting timetable to support the delivery of a budget by 31 March each year.	A budget for 2017-18 was set on 24 March 2017. The budget was presented to the IJB through a formal procedure and agreed upon during the meeting. This report includes unidentified savings.

Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
3. Public Notice Period			
<p>The budget agreed in March 2016 highlighted the need to develop a financial recovery plan. The financial recovery plan was agreed in July 2016 however this highlighted that the funding was still considered by officers to be insufficient to meet the board's requirements. There is a risk the board is unable to fund the services.</p>	<p>The board should continue to develop its recovery plan to address the funding gaps identified.</p>	<p>All possible efforts continue to be made to identify further saving opportunities and reduced supplementary staffing expenditure. Progress will be reported to the IJB at each meeting.</p>	<p>A "Savings plan V Savings booked/ anticipated" is included in financial update, the information included comes from budget holders who are actively involved in providing services and from the CFO and Partnership Accountant. This is monitored on a monthly basis and included within each financial update presented to the board.</p>
4. Performance Measures not yet developed			
<p>The board has approved a performance management framework to comply with guidance set out in the Public Bodies (Joint Working) (Scotland) Act 2014. However, performance measures have yet to be developed.</p>	<p>The board should develop and agree key performance measures to be used in monitoring performance against its strategic objectives.</p>	<p>Work is on-going to agree key performance measures in the first instance they have focused on Capacity and Flow, however a wider framework of key performance measures will be developed for agreement by the board.</p>	<p>The setting of objectives has been an ongoing process. In June 2017 the IJB members were presented with an action plan that sets out the objectives, actions, measurable deliverable targets and timescales to complete objective. Each objective is also given a RAG rating; note no red ratings. Pending approval from the IJB this plan will be put into action.</p>



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