



REPORT TO: East Lothian Integration Joint Board
MEETING DATE: 28 September 2017
BY: Chief Finance Officer
SUBJECT: IJB Annual Accounts 2016/17

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1 PURPOSE

- 1.1 The IJB has prepared annual accounts for the financial year 2016/17, these have now been audited by the IJB's Independent Auditors and the auditors have reported their view to the IJB's Audit and Risk Committee at their meeting on 12 September 2017.

2 RECOMMENDATIONS

The IJB is asked to:

- 2.1 Note the opinion of the Independent Auditors on the IJB's Annual Accounts for 2016/17.
- 2.2 Note the recommendation of the IJB's Audit and Risk Committee that the annual accounts be approved by the IJB.
- 2.3 Approve the IJB's Annual Accounts for 2016/17 (Appendix 1).

3. BACKGROUND

- 3.1 As a body governed by section 110 of the Local Government Scotland Act (1973) and the appropriate regulations and subsequent Acts, the IJB must prepare a set of Annual Accounts. The accounts must fulfil the requirements of the Act and the regulations and must give a true and fair view of the IJB's financial position.
- 3.2 The accounts must then be reviewed by an Independent Auditor who then reports their findings to the Audit and Risk Committee which allows the auditors to bring any matters to the Committee's attention.

- 3.3 In summary the auditor's report is unqualified - that is that they consider that the accounts meet the regulations and requirements of the Act and that the accounts are a true and fair view of the IJB's financial position.
- 3.4 The auditors have made a series of recommendations which are attached to their report (Appendix 2). Both the Chief Officer and the Chief Finance Officer support the independent auditors' recommendations and their responses to these recommendations are included in the Independent Auditors report.
- 3.5 The IJB's Audit and Risk Committee met on 12 September 2017 and considered the report of the Independent Auditors. The Committee were satisfied with the report of the independent auditors and recommended that the IJB adopt these accounts.

4 POLICY IMPLICATIONS

- 4.1 This paper is covered within the policies already agreed by the IJB.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 There are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – there are none.
- 6.2 Personnel – there are none.

7 BACKGROUND PAPERS

- 7.1 None.

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DATE	21 September 2017

East Lothian
Integration Joint Board



East Lothian Integration Joint Board

Annual Accounts 2016/17

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Audit Arrangements

Under arrangement approved by the Accounts Commission of Local Authority Accounts in Scotland, the auditor with responsibility for the audit of the accounts of East Lothian Integration Joint Board for the period 1st April 2016 to 31st March 2017 is Audit Scotland, 102 West Port, Edinburgh EH3 9DN

Management Commentary

The Role and Remit of the IJB

The Public Bodies (Joint Working) Act (2014) directs the creation of an Integration Authority for East Lothian to which a range of functions are to be delegated by NHS Lothian Board and East Lothian Council (the 'partners'). East Lothian Integration Joint Board (IJB) was created pursuant to section 1(4)(a) of the Act being a body corporate. The IJB is constituted through its Integration Scheme which was prepared by East Lothian Council and NHS Lothian and presented to Scottish Ministers in March 2015. The Integration Scheme was approved by the Scottish Parliament in June 2015 and the first meeting of the IJB took place on 1 July 2015.

The IJB is governed by the Local Government Scotland Act (1973) along with the 2014 regulations and these accounts are prepared on that basis.

These accounts cover the period from 1st April 2016 to 31st March 2017.

The IJB's role and responsibility is to plan for the delivery of the functions that have been delegated to the IJB by East Lothian Council and NHS Lothian. These functions are :-

- Adult Social Care
- Criminal Justice
- Primary Care Services (GP Practices, Community Dentists, Community Pharmacies and Community Opticians)
- Mental Health Services
- Physical and Learning Disabilities Services
- Community Health Services
- Community Hospital Services
- Unscheduled Care Services (services that are generally delivered from the Royal Infirmary of Edinburgh, the Western General Hospital and St. John's at Howden)

The IJB assumed formal responsibility for these functions in April 2016 including the budgets for the delivery of these functions. The IJB published its Strategic Plan for these functions covering the period from April 2016 to March 2019 in November 2015.

The IJB issued directions to its partners for the financial year 2016/17 in March 2017. This in line with the processes set out in the Public Bodies (Joint Working) (Scotland) Act 2014.

The IJB met 10 times during the financial year 2016/17 and the members of the IJB in March 2017 were as follows:-

Member	Nominated/Appointed by	Role
Donald Grant	Nominated by East Lothian Council	Voting Member, Chair
Mike Ash	Nominated by NHS Lothian	Voting member, Vice Chair
Shamin Akhtar	Nominated by East Lothian Council	Voting Member
Jim Goodfellow	Nominated by East Lothian Council	Voting Member
Stuart Currie	Nominated by East Lothian Council	Voting Member, Chair of Audit and Risk Committee
Alex Joyce	Nominated by NHS Lothian	Voting Member
Peter Murray	Nominated by NHS Lothian	Voting Member
Fiona Ireland	Nominated by NHS Lothian	Voting Member
David Small	Appointed by the IJB	Chief Officer
David King	Appointed by the IJB	Chief Finance Officer
Fiona Duncan	Nominated by East Lothian Council	Chief Social Worker
Alison MacDonald	Nominated by NHS Lothian	Chief Nurse/Head of Older People and Access
Andrew Flapan	Nominated by NHS Lothian	Medical Consultant
Jon Turvill	Nominated by NHS Lothian	Clinical Director
Richard Fairclough	Appointed by the IJB	General Practitioner
Thomas Miller	Appointed by the IJB	NHS Staff Representative
Andrew Wilson	Appointed by the IJB	ELC Staff Side Representative
Margaret McKay	Appointed by the IJB	User/Carer representative
Eliot Stark	Appointed by the IJB	Voluntary Sector Representative
Sharon Saunders	Appointed by the IJB	Head of Adult and Children's Services
Marilyn McNeill	Appointed by the IJB	User representative

Note – all members, except those indicated above as voting members, are non-voting members

The IJB's Operations for the Year

2016/17 was the first year in which the IJB received financial resources ('budget') to support the delivery of its delegated functions. These resources were made available by NHS Lothian and by East Lothian Council as described in the Integration scheme. The financial models to generate the IJB's budget were proposed by East Lothian Council and NHS Lothian and agreed by the IJB as part of its financial assurance process.

At its March 2016 meeting, the IJB agreed the budget proposed by East Lothian Council which was based on the budget agreed by the Council for its social work services at the Council meeting in February 2016. East Lothian Council refer to their adult social care services as 'adult wellbeing' but this council budget is not directly

allocated to the IJB as some of the services have not been delegated and, in addition, some functions funded through the housing revenue account (HRA) are delegated to the IJB. The adjustments are as follows :-

	£000's
Opening AWB	43,498
Less -Supporting People	-800
Add -Private sector housing grant	256
Add – HRA	834
	<u>43,788</u>

The IJB also agreed an indicative budget from NHS Lothian based on outline values presented to the IJB as part of the overall NHS Lothian budget setting process. Having agreed these budget propositions, this budget was the basis of the directions which the IJB issued to NHS Lothian and East Lothian Council in line with the IJB's agreed directions policy in March 2016.

NHS Lothian formally proposed a budget in June 2016, the IJB undertook a further financial assurance process and accepted that budget at its August meeting. The IJB's budget from both NHS Lothian and East Lothian Council has been subject to changes during the financial year. East Lothian Council had carried forward resource on behalf of its social care from 2015/16 and released these resources to the IJB as required during 2016/17. NHS Lothian both continued to revise its health budget setting model in collaboration with the IJB and also received further allocations from the Scottish Government in 2016/17. Some of the additional Scottish Government 2016/17 allocations supported delegated functions with the budgets being made available to the IJB.

During the financial year 2016/17, the IJB had a financial risk sharing agreement with its partners – East Lothian Council and NHS Lothian. In essence this agreement was that any health overspends against the IJB's budgets would be covered by NHS Lothian and East Lothian Council made an additional £1.0m available to cover overspends in the social care budgets.

The IJB's first year has been about integrating our health and social care management and service teams and reshaping commission and delivering of services in line with our strategic vision. Success stories include the launch of the new Help with Independent Living and Daily Activity (HILDA) self-help web site; 1st Response mental health drop-in sessions; the Care Home Team, Hospital at Home and Hospital to Home Teams.

However, there are also areas that the IJB needs to focus on further, including looking at how to reduce emergency admissions to hospital; helping more people to have end-of-life care at home or in a homely setting; continuing to drive up care service inspection grades, and continuing to build the positive experience of general medical practice care, currently sitting at 85% in East Lothian.

The IJB has produced an Annual Performance Report that lays out its activities and achievements in 2016/17. It can be found here :-

http://www.eastlothian.gov.uk/downloads/download/2512/east_lothian_integration_joint_board_annual_report_201617

The IJB's Position at 31st March 2017

For the year ending 31st March 2017, the IJB has broken even. That is, the costs incurred in delivering the IJB's functions by East Lothian Council and NHS Lothian are equal to the income that the IJB received from NHS Lothian and East Lothian Council. This is in line with the risk sharing agreement referred to above.

The charges for the delivery of the delegated functions by the partners are East Lothian Council - £44.277m and NHS Lothian - £109.596m.

The charges made by East Lothian Council to the IJB are the net direct costs incurred in the delivery of the delegated social care services in East Lothian.

The charges from NHS Lothian are based on the health budget setting model as agreed by the IJB. That is, charges for the core services (those services specifically for and delivered by the East Lothian partnership) are based on the net direct actual costs incurred in East Lothian. However, charges for hosted and set aside services (those services which are not generally managed by the East Lothian Partnership and are delivered on a pan-Lothian basis) are based on the total actual costs for these service shared across four IJBs per the budget setting model. The IJB share of the total actual costs incurred in 2016/17 for hosted services is 12% and, generally, 12% of the Lothian element of the set aside budgets.

In 2016/17 per the risk sharing agreements both East Lothian Council and NHS Lothian have made additional, non-recurrent resources available to the IJB as follows :-

	ELC £m	NHSiL £m
Opening Budget	43.79	86.83
Social Care Fund		4.37
Add'n budget in year	0.16	6.94
Adj to AWB budget	-0.13	
2016/17 budget	43.82	98.14
Non Cash Limited		10.41
Adj for HRA	-0.13	
Additional n/r Support	0.60	1.05
Net charge to IJB	44.29	109.60

This shows that, even having adjusted the IJB's budgets and releasing further resources per the integration scheme, the partners provided the IJB with an additional, non-recurrent £1.6m to allow it to break-even.

The integration scheme lays out that the partners will provide corporate and other support to the IJB as required and will not charge for these services. These costs are not, therefore, included above.

East Lothian Council is carrying forward (from 2016/17 to 2017/18) £0.3m on behalf of the IJB in line with its previous policies. These funds will be available to the IJB in 2017/18.

The IJB's Strategy and Business Model

The IJB's remit and goals are laid out in the IJB's Strategic Plan. These are in line with the Scottish Government's national outcomes and will be delivered through:-

- Shifting the balance of care to provide more care delivered at home or in a homely setting rather than in hospital or other institutions
- Ensuring care is person centred, with a focus on the individual and not just specific health and social care needs
- Further improving the joined up approach to working across professions and bodies delivering health and social care functions
- Ensuring citizens, communities and staff involved in providing health and social care services will have a greater say in how these services are planned and delivered.

The Strategic Plan, having been consulted on as required by the regulations, was agreed by the IJB at its meeting in November 2015.

In order to deliver the IJB's Strategic Plan, the Act lays out that the IJB must issue directions to its partners describing for each function the actions required, the resources to be used and the outcomes required

The IJB issued directions to East Lothian Council and NHS Lothian for the financial year 2016/17 in March 2016 based on an indicative budgetary position as described above in line with the IJB's policy on directions.

The IJB's long term plan is to redesign the delivery of the functions delegated to it in order to:-

- Increase capacity – to manage the pressures resulting from an aging and increasing population
- Improve the quality of care – by supporting a more individual-centered, holistic approach
- Reduce the costs of the delivery of the functions in line with the projected reduction in the financial resources available to the IJB.

Key Risks and Uncertainties

The challenge for the IJB is to transform the delivery of its delegated functions whilst supporting the delivery of financial balance with an (in real terms) reduction in the financial resources available. There remain a series of uncertainties:-

1. The local elections in May 2017 changed the membership of the IJB and this may cause issues with continuity of both knowledge and purpose.
2. It remains difficult for the partners to recruit elements of the workforce to deliver the IJB's functions, e.g. GPs, District Nurses and Care workers.
3. The increasing population in East Lothian remains a challenge which may exacerbate the staffing pressures above.
4. The financial position for the UK and Scotland remains uncertain and this will provide a challenge to the amount of financial resources available to the IJB.

Analysis of the Financial Statements

The financial statements are all presented on a net basis.

Income and Expenditure

As was discussed above, the partners provided additional non-recurrent resources to support the IJB's position in year. The pressures driving these overspends fall into two broad areas:

- Significant overspends against the GP prescribing budget
- A lack of delivery of efficiency schemes and recovery plans both within those services managed by the partnership and the services managed by other management teams within NHS Lothian.

Each of these pressures is being addressed by management and actions are detailed in the IJB's financial plan for 2017/18.

Balance Sheet

The IJB has broken even in 2016/17 and that there are no outstanding balances either carried into this financial year nor brought forward into future years (the IJB has no assets per its integration scheme). There are no entries in the IJB's balance sheet for 2016/17.

Reserves

The IJB has no reserves at the end of 2016/17.

Peter Murray
Chair

David Small
Chief Officer

David King
Chief Finance Officer

Statement of Responsibilities

Responsibilities of the Integration Joint Board

The Integration Joint Board is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the board has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the chief finance officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland act 2003).
- Approve the Annual Accounts.

I confirm that these Annual Accounts were approved for signature at a meeting of the Audit & Governance Committee on 12 September 2017.

Signed on behalf of East Lothian Integration Joint Board

Peter Murray
Chair

Responsibilities of the Chief Finance Officer

The chief finance officer is responsible for the preparation of the IJB's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the chief finance officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation
- Complied with the local authority Code (in so far as it is compatible with legislation).

The chief finance officer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the East Lothian Integration Joint Board as at 31 March 2017 and the transactions for the year then ended.

David King
Chief Finance Officer

Remuneration Report

Introduction

This Remuneration Report is provided in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It discloses information relating to the remuneration and pension benefits of specified IJB members and staff.

The information in the tables below is subject to external audit. The explanatory text in the Remuneration Report is reviewed by the external auditors to ensure it is consistent with the financial statements.

Remuneration: IJB Chair and Vice Chair

The voting members of the IJB are appointed through nomination by East Lothian Council and NHS Lothian Board. Nomination of the IJB Chair and Vice Chair post holders alternates between a Councillor and a Health Board representative. In 2016/17, the Chair was nominated by East Lothian Council and the Vice Chair by NHS Lothian.

The IJB does not provide any additional remuneration to the Chair, Vice Chair or any other board members relating to their role on the IJB. The IJB does not reimburse the relevant partner organisations for any voting board member costs borne by the partner. Neither the Chair nor the Vice Chair appointments had any taxable expenses paid by the IJB in 2016/17.

The IJB does not have responsibilities, either in the current year or in future years, for funding any pension entitlements of voting IJB members. Therefore no pension rights disclosures are provided for the Chair or Vice Chair.

NHS Lothian remunerates its non-executive members on a notional day basis. Those non-executive members of the NHS Lothian Board, who are also Chairs or Vice Chairs of IJBs, are given an additional notional day's remuneration per week in recognition of the additional time required to undertake those roles. Mike Ash, as a non-executive member of NHS Lothian Board who is also the vice chair of East Lothian IJB, has received an additional notional day's remuneration specifically for his role as vice chair of the IJB in 2016/17. This remuneration is £8,169 per annum.

Remuneration: Officers of the IJB

The IJB does not directly employ any staff in its own right, however, specific post-holding officers are non-voting members of the Board.

Chief Officer

Under section 10 of the Public Bodies (Joint Working) (Scotland) Act 2014 a Chief Officer for the IJB has to be appointed and the employing partner has to formally second the officer to the IJB. The employment contract for the Chief Officer will adhere to the legislative and regulatory framework of the employing partner organisation. The remuneration terms of the Chief Officer’s employment are approved by the IJB.

The Chief Officer of the IJB is David Small who is also the Director of Health and Social Care for East Lothian Council and the Joint Director of the East Lothian Partnership. It has been agreed, and this was disclosed in the accounts for 2015/16, that 50% of his total remuneration is to be shown in the accounts of the IJB as his remuneration as the Chief Officer of the IJB.

Chief Finance Officer

Although the costs of the Chief Finance Officer are not included in the charges made to the IJB by either partner, given the S95 role of the Chief Finance Officer and in the interests of transparency the remuneration of the Chief Finance officer is included below. The Chief Finance officer is David King. The Chief Finance Officer is employed by NHS Lothian and has three roles – the IJB’s Chief Finance Officer, the Chief Finance Officer of Midlothian IJB and an operational role in the NHS Lothian finance team. On that basis, one third of the total remuneration is shown below.

Other Officers

No other staff are appointed by the IJB under a similar legal regime. Other non-voting board members who meet the criteria for disclosure are included in the disclosures below.

Total 2015/16 £	Senior Employees	Salary, Fees & Allowances £	Total 2016/17 £
36,346	David Small	50,865	50,865
11,220	David King	26,802	26,802

Note - 2015/16 was not a full year; David Small was appointed in July 2015. David King was appointed in October 2015.

In respect of officers’ pension benefits, the statutory liability for any future contributions to be made rests with the relevant employing partner organisation. On this basis there is no pensions liability reflected on the IJB balance sheet for the Chief Officer or any other officers.

The IJB however has responsibility for funding the employer contributions for the current year in respect of the officer time spent on fulfilling the responsibilities of their role on the IJB. The following table shows the IJB’s funding during the year to support officers’ pension benefits. The table also shows the total value of accrued pension benefits which may include benefits earned in other employment positions and from each officer’s own contributions.

	In year Contribution			Accrued Pension benefits	
	For year to 31/03/2017 £000's	For period ending 31/3/16 £000's		at 31/3/17 £000's	at 31/3/16 £000's
David Small (from July 2015)	7.6	5.5	Pension Lump Sum	41.3 124.0	39.4 118.3
David King (from October 2015)	4.0	1.7	Pension Lump Sum	34.0 102.0	33.1 99.5

Disclosure by Pay Bands

As required by the regulations, the following table shows the number of persons whose remuneration for the year was £50,000 or above, in bands of £5,000.

Number of Employees in Band 2015/16	Remuneration Band	Number of Employees in Band 2016/17
0	£50,000 - £54,999	1
0	£55,000 - £59,999	0
0	£60,000 - £65,000	0

Exit Packages

The IJB did not support nor did it direct to be supported by its partners any exit packages during 2016/17

Peter Murray
Chair

David Small
Chief Officer

Annual Governance Statement

East Lothian IJB is responsible for ensuring that its business is conducted in accordance with the law and proper standards. This is to allow public funds at its disposal to be safeguarded and used efficiently and effectively in pursuit of best value.

Board members, including the Chief Officer and Chief Finance Officer, are responsible for the governance of the business affairs of East Lothian IJB. This includes:

- setting the strategic direction, vision, culture and values of the IJB
- establishing appropriate and cost effective systems, processes and internal controls to allow the strategic objectives to be delivered.

In order to achieve this governance, the IJB has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework and guidance on Delivering Good Governance in Local Government: Framework (2016).

The Code of Corporate Governance details 7 core principles which are supported by 20 sub-principles and 91 behaviours and actions that demonstrate good Governance. Elements of good governance included are:-

- Ensuring members behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the IJB
- Creating the conditions to ensure that all IJB members and the IJB's partners (East Lothian Council and NHS Lothian) are able to fulfil their responsibilities in accordance with legislative and regulatory requirements
- Having a clear vision, which is an agreed formal statement of the IJB's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the IJB's overall strategy, planning and other decisions
- Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources and to ensure best value is achieved.
- Evaluating and monitoring risk management and internal control on a regular basis
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor
- Ensuring an audit committee, which is independent of the executive and accountable to the IJB, provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment and that its recommendations are listened to and acted upon
- Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on the

assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)

- Ensuring that recommendations for corrective action made by the external auditor are acted upon.

It should be noted that development work continues on the risk management process and the whistle-blowing and fraud prevention procedures and processes. East Lothian IJB's financial management arrangements conform to the requirements of the CIPFA Statement on the role of the Chief Finance Officer in Local Government. The Chief Finance Officer has overall responsibility for the IJB's financial arrangements and is professionally qualified and suitably experienced.

In discharging this responsibility, the Chief Officer has put in place arrangements for governance which includes the system of internal control. This is designed to manage risk to a reasonable level, but cannot eliminate the risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable but not absolute assurance of effectiveness.

The IJB is responsible for conducting each financial year, a review of the effectiveness of its governance framework, including risk management and the systems for internal control and financial control. The review of the effectiveness of the IJB's governance framework is informed by:

- the work of the IJB, the Strategic Planning Group and the Audit & Risk Committee
- the Chief Internal Auditor's annual report which is based on internal audit work completed during the year and
- reports from other external review bodies, agencies and inspectorates.
- Reliance is also placed on NHS Lothian and East Lothian Council's systems of internal control that support compliance with both organisations' policies and promotes achievement of each organisation's aims and objectives as well as those of the IJB.

These assessments did not highlight any issues that would impact on the level of effectiveness of the IJB's governance framework. However, a number of improvements were identified and are discussed in the action plan below. This is the second year of the IJB's operation and the first year in which the IJB has managed its financial allocations and these issues are still being developed. These are addressed below.

The statement has also been informed by the work undertaken by Internal Audit who, following the requirements of the Local Authority Accounts (Scotland) Regulations 2014, conducted an annual review of the effectiveness of the IJB's system of internal control. The Chief Internal Auditor has responsibility for the IJB's internal audit function and reports functionally to the Audit and Risk Committee to allow appropriate independence. The Chief Internal Auditor is professionally

qualified and suitably experienced to lead and direct the internal audit team. The internal audit service generally operates in accordance with the Public Sector Internal Audit Standards.

The Chief Internal Auditor concluded that subject to weaknesses identified, reasonable assurance can be placed on the overall adequacy and effectiveness of the IJB's framework of governance, risk management and control for the period from 1 April 2016 to 31 March 2017. These improvements are reflected within the action plan detailed below.

The results from these reviews were presented to the June 2017 Board Meeting with the Annual Governance Statement for approval.

Statutory and Other Compliance

East Lothian IJB (the 'Board') has secured compliance with statutory and other requirements, as follows:

- **Membership** - its minimum membership (voting and non-voting) is set by statutory instrument, with the power to appoint additional members as it sees fit. The Board's membership is fully populated;
- **Standing Orders** - the Board is required by statutory regulations to have Standing Orders to regulate its business, with some aspects stipulated in those regulations. Standing Orders were adopted at the inaugural meeting, complying with statutory requirements;
- **Committees** - the Board has established an Audit & Risk Committee with a detailed remit, powers, and with the membership clearly defined. This complies with statutory requirements and with the Board's Standing Orders;
- **Meetings** - the Standing Orders adopted by the Board allow the public to have prior access to meeting agendas and reports, and to attend meetings of the Board and its committees - except in clearly defined and limited circumstances;
- **Strategic Plan** - the Board established its Strategic Planning Group as required by legislation, with Terms of Reference approved by the Board covering membership, meetings and meetings procedures;
- **Officers** - the Board appointed a Chief Officer and a Chief Finance Officer as required by the legislation. The Board has also appointed a Standards Officer (the Chief Officer) in relation to its statutory Code of Conduct for Members. A Chief Internal Auditor has been appointed to carry out the Board's internal audit requirements and assist its Audit and Risk Committee;
- **Finance** - the Board received reports in relation to financial assurance prior to the setting of budgets (for 2016/17) for the integrated functions by East Lothian Council and NHS Lothian. It adopted Financial Regulations in relation to the conduct of its financial affairs, the maintenance of its accounting and financial records, and its annual accounts and financial statements; and

- **Code of Conduct** - The IJB approved and adopted its first draft Code on 19 October 2015 and agreed to submit the draft to Scottish Ministers for final approval. The Code was amended due to legislative changes in 25 February 2016. A further revised draft agreed by the IJB on 8 June 2016 following revisions in the template supplied by the Scottish Government. At the IJB's meeting on 25 August 2016, the Chief Officer advised members that this latest version of the Code had been approved by the Scottish Government. A register of members' interests has been prepared and is available for inspection.

Action Plan

Through the Board and the Audit and Risk Committee, further work will be progressed and will be carried out in relation to governance of these particular aspects of the Board's statutory duties and powers:

Areas for Improvement identified in 2015/16	Action undertaken 2016/17
<p>Financial Assurance Finalisation of the 2016/17 financial assurance process including a formal offer of financial resources from NHS Lothian</p>	<p>At its March 2016 meeting the IJB accepted the East Lothian Council budgetary offer and an indicative offer from NHS Lothian. NHS Lothian's formal financial allocation offer for 2016/17 was received on 14 June 2016. The final financial assurance for 2016/17 was presented to the IJB at its August meeting. The IJB agreed to the proposed budget.</p>
<p>Three year financial plan The financial plan that underpins the IJB's Strategic Plan should cover a three year period.</p>	<p>Although NHS Lothian have only made an offer for one year, East Lothian Council have made a three year indicative position. The 2017/18 budget is also a one year settlement however this is now being addressed in 2017/18 as part of the future budget setting process.</p>
<p>Financial Risk Sharing Completion of a financial risk sharing agreement between the IJB and its partners.</p>	<p>The 2016/17 financial risk sharing was agreed. NHS Lothian agreed to cover the health elements of the IJB's budget and East Lothian Council made an additional £1.0m available to cover any overspends within the social care element of the IJB's budget.</p>

Areas for Improvement identified in 2015/16	Action undertaken 2016/17
<p>Support to the IJB from the partners Finalisation of the actions requiring to be undertaken by the partners to support the IJB as laid out in the IJB's integration scheme.</p>	<p>A range of matters have been progressed :-</p> <ul style="list-style-type: none"> • Additional staffing to support for the IJB's planning team • Support from NHS Lothian Internal Audit team to the IJB's CIA • Support for the delivery of performance and activity information from NHS Lothian • Support to prepare an IJB risk register • Redesign of the NHS Strategic Planning group and NHS Finance and performance group to reflect the responsibilities of the IJB • Agreement to an whole Lothian system Internal Audit report sharing mechanism – that is all four councils, NHS Lothian and all four IJBs • Representation of the IJB on NHS Lothian's clinical governance committee.
<p>Performance management Further development of the performance management framework for the IJB.</p>	<p>The IJB is continuing to work with its partners to agree and implement a system of performance management (including financial performance). Detailed reports were presented to the IJB at its meetings in August 2016 and February 2017. Further reports will be presented to the IJB in 2017/18.</p>
<p>Risk management Further developments in the risk management system for the IJB.</p>	<p>A draft proposal and risk register was submitted to the IJB's Audit and Risk Committee on 23 March 2016 with a further report along with an updated risk register which was presented to the Audit and Risk Committee on 21 June 2016. The risk register continues to be developed and has been presented to the Audit and Risk Committee at each of its meeting in 2016/17.</p>

Area for Improvement identified in 2016/17	Actions to be undertaken In 2017/18
<p>Use of the Social Care Fund A lack of a clear audit trail to monitor the actual social care fund (£4.37 million) expenditure incurred to date for certain categories of spends.</p>	<p>A range of reports regarding the SCF were made to the IJB in 2016/17 a final report will be made to the IJB meeting of June 2016. This report shows that the expenditure on the SCF was in line with the IJB's agreement with East Lothian Council.</p>
<p>Performance Management The need to ensure that the performance management framework is fully developed and clearly sets out how the IJB will measure performance against the Strategic Plan, identify areas where improvements are required and demonstrate to stakeholders the benefits that are being delivered.</p>	<p>This work continues supported by the IJB's partners and a reporting mechanism has been agreed with further development work in train. Reports were presented to the IJB at its meetings in August 2016 and February 2017.</p>
<p>Risk Register The risk register in place requires review to ensure that it includes all ongoing and emerging risks facing the IJB including these identified as part of the financial assurance process. The register should clearly set out the additional controls and measures to manage the risks identified and meet the desired risk targets.</p>	<p>The IJB's risk register was presented to the meeting of the IJB's Audit and Risk committee in 2016/17. It is being reviewed and updated and work is underway with both NHS Lothian and the other IJBs in the Lothians to ensure that there are all the risk are appropriately covered.</p>
<p>Participation, engagement and the workforce development plan Progress that requires to be made on Participation and Engagement and the Workforce Development and Support Plan, to ensure compliance with the Integration Scheme.</p>	<p>The IJB has continued to engage both its partners and, more importantly the public which its services. Regular updates and briefings are provided on the IJB's website and the IJB has undertaken a second 'big conversation' to engage with the public.</p>

On the basis of the IJB's assurance system, and the elements of governance at its disposal, we are satisfied that overall, East Lothian IJB's systems of internal control, risk management and governance arrangements are of a satisfactory standard. We are aware of areas where improvements are required and steps will be taken in the forthcoming year to address these areas, allowing the IJB to advance its corporate governance arrangements and seek continuous improvement.

Peter Murray
Chair of the IJB

David Small
Chief Officer

Independent auditor's report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of East Lothian Integration Joint Board for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the East Lothian Integration Joint Board as at 31 March 2017 and of its income and expenditure on the provision of services for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the East Lothian Integration Joint Board in accordance with the ethical requirements that are relevant

to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chief Finance Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the East Lothian Integration Joint Board and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance

conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA
Assistant Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DH

29 September 2017

Comprehensive Income and Expenditure Statement

This statement shows the cost of providing services for the year according to accepted accounting practices. Where the impact on the General Fund is amended by statutory adjustments, this is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

9 months to end March 2016	2016/17
Net Expenditure	Net Expenditure
£m	£m
0.03 NHS Lothian	109.60
0.02 East Lothian Council	44.29
0.05 Cost of Services	153.89
0.05 Taxation and Non-Specific Grant Income	153.89
0.00 Surplus or Deficit on Provision of Services	0.00
0.00 Total Comprehensive Income and Expenditure	0.00

Movement in Reserves Statement

The IJB had no reserves in 2016/17 nor did it hold any reserves to end March 2016

Movements in Reserves During 2016/17	General Fund Balance	Unusable Reserves: Employee Statutory Adjustment Account	Total Reserves
	£000	£000	£000
Opening Balance at 31 March 2016	(0)	0	(0)
Total Comprehensive Income and Expenditure	(0)	0	(0)
Increase or Decrease in 2016/17	(0)	0	(0)
Closing Balance at 31 March 2017	(0)	0	(0)

Movements in Reserves During 2015/16	General Fund Balance	Unusable Reserves: Employee Statutory Adjustment Account	Total Reserves
	£000	£000	£000
Opening Balance at 31 March 2015	0	0	0
Total Comprehensive Income and Expenditure	(0)	0	(0)
Increase or Decrease in 2015/16	(0)	0	(0)
Closing Balance at 31 March 2016	(0)	0	(0)

Balance Sheet

The IJB has neither assets nor liabilities at 31st March 2017.

The Balance Sheet shows the value of the IJB's assets and liabilities as at the balance sheet date. The net assets of the IJB (assets less liabilities) are matched by the reserves held by the IJB.

31 March 2016 £000	Notes	31 March 2017 £000
0	Short term Debtors	0
0	Current Assets	0
0	Short term Creditors	0
0	Current Liabilities	0
0	Provisions	0
0	Long-term Liabilities	0
0	Net Assets	0
0	Usable Reserve: General Fund	0
0	Usable Reserve:	0
0	Employee Statutory Adjustment	0
0	Account	0
0	Total Reserves	0

The unaudited accounts were issued on 30 June 2017 and the audited accounts were authorised for issue on 29 September 2017

David King
Chief Finance Officer

Notes to the Financial Statements

1. Significant Accounting Policies

General Principles

The Financial Statements summarises the IJB's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017.

The IJB was established under the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014 and is a Section 106 body as defined in the Local Government (Scotland) Act 1973.

The Financial Statements are therefore prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, supported by International Financial Reporting Standards (IFRS), unless legislation or statutory guidance requires different treatment.

The accounts are prepared on a going concern basis, which assumes that the IJB will continue in operational existence for the foreseeable future. The historical cost convention has been adopted.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when settlement in cash occurs. In particular:

- Expenditure is recognised when goods or services are received and their benefits are used by the IJB.
- Income is recognised when the IJB has a right to the income, for instance by meeting any terms and conditions required to earn the income, and receipt of the income is probable.
- Where income and expenditure have been recognised but settlement in cash has not taken place, a debtor or creditor is recorded in the Balance Sheet.
- Where debts may not be received, the balance of debtors is written down.

It should be noted that the above principle are those applied by the partners (NHS Lothian and East Lothian Council). The IJB has funded these partners to deliver the delegated functions and these partners have charged the IJB as above.

Funding

The IJB is wholly funded through funding contributions from the statutory funding partners, East Lothian Council and NHS Lothian. Expenditure is incurred in the form of charges by the partners.

Cash and Cash Equivalents

The IJB does not operate a bank account or hold cash. Transactions are settled on behalf of the IJB by the funding partners. Consequently the IJB does not present a 'Cash and Cash Equivalent' figure on the balance sheet. There are no outstanding funding balances from either partners at 31st March 2017.

Employee Benefits

The IJB does not directly employ staff. Staff are formally employed by the partners who retain the liability for pension benefits payable in the future. The IJB therefore does not present a Pensions Liability on its Balance Sheet.

The IJB has a legal responsibility to appoint a Chief Officer. More details on the arrangements are provided in the Remuneration Report.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are liabilities of uncertain timing or amount. A provision is recognised as a liability on the balance sheet when there is an obligation as at 31 March due to a past event, settlement of the obligation is probable, and a reliable estimate of the amount can be made. Recognition of a provision will result in expenditure being charged to the Comprehensive Income and Expenditure Statement and will normally be a charge to the General Fund.

A contingent liability is a possible liability arising from events on or before 31 March, whose existence will only be confirmed by later events. A provision that cannot be reasonably estimated, or where settlement is not probable, is treated as a contingent liability. A contingent liability is not recognised in the IJB's Balance Sheet, but is disclosed in a note where it is material.

A contingent asset is a possible asset arising from events on or before 31 March, whose existence will only be confirmed by later events. A contingent asset is not recognised in the IJB's Balance Sheet, but is disclosed in a note only if it is probable to arise and can be reliably measured.

Reserves

The IJB's reserves are classified as either Usable or Unusable Reserves.

The IJB's only Usable Reserve is the General Fund. The balance of the General Fund as at 31 March shows the extent of resources which the IJB can use in later years to support service provision. As noted above, the IJB had no reserves as at 31st March 2017.

The IJB's only Unusable Reserve is the Employee Statutory Adjustment Account. This is required by legislation.

Indemnity Insurance

The IJB has indemnity insurance for costs relating primarily to potential claim liabilities regarding Board member and officer responsibilities. NHS Lothian and East Lothian Council have responsibility for claims in respect of the services that they are statutorily responsible for and that they provide. The IJB holds separate indemnity insurance through its membership of the CNORIS scheme; the charge for this in 2016/17 was £6,000.

Unlike NHS Boards, the IJB does not have any 'shared risk' exposure from participation in CNORIS. The IJB participation in the CNORIS scheme is therefore analogous to normal insurance arrangements.

Known claims are assessed as to the value and probability of settlement. Where it is material the overall expected value of known claims taking probability of settlement into consideration is provided for in the IJB's Balance Sheet.

The likelihood of receipt of an insurance settlement to cover any claims is separately assessed and, where material, presented as either a debtor or disclosed as a contingent asset.

2. Critical Judgements and Estimation Uncertainty

The critical judgements made in the Financial Statements relating to complex transactions are:

- The partner organisations have considered their exposure to possible losses and made adequate provision where it is probable that an outflow of resources will be required and the amount of the obligation can be measured reliably. Where it has not been possible to measure the obligation, or it is not probable in the partner organisations' options that a transfer of economic benefits will be required, material contingent liabilities have been disclosed (there are none).

- The Annual Accounts contains estimated figures that are based on assumptions made by the IJB about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.
- There are no items in the IJB's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year.

Provisions

The IJB has not created any provisions in respect of compensation claims. It is not certain that all claims have been identified or that the historic level of settlement payments is a reliable guide for future settlements.

3. Events After the Reporting Period

The Annual Accounts were authorised for issue by the IJB on 29 September 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

4. Expenditure and Funding Analysis

Expenditure		2016/17
2015/16		£m
£m	Services specifically for East Lothian	£m
0.03	Health	63.94
0.02	Social Care	44.29
	East Lothian's share of Lothian Health Services	
0.00	Hosted	21.37
0.00	Set Aside	24.29
0.05	Total	153.89
Funded By		
0.03	East Lothian Council	44.29
0.02	NHS Lothian	109.60
0.05		153.89

Expenditure above has been split into three main areas:-

- Expenditure on those services delivered specifically for the population of East Lothian. These services are managed locally by the East Lothian Partnership
- Hosted Services; these are health services managed either by the Edinburgh, East Lothian and West Lothian Partnerships or managed by NHS Lothian on a pan-Lothian basis. These services included Mental Health Services, Learning Disability Services, Substance Misuse Services, Rehabilitation services, General Dental Services, General Pharmaceutical Services and General Ophthalmic Services. This is the IJB's agreed share of these services.
- Set Aside Services; these are services delivered in the main acute hospitals (Royal Infirmary of Edinburgh, Western General Hospital and St. John's Hospital) and managed by NHS Lothian. This is the IJB's agreed share of these services

Corporate Service

Included in the above costs are the following corporate services :-

2015/16 £000's		2016/17 £000's
48	Staff (Chief Officer)	51
5	Audit Fee	17
53	Total	68

5. Related Party Transactions

As partners with the East Lothian Integration Joint Board both East Lothian Council and NHS Lothian are related parties and the material transactions with these bodies are disclosed in these accounts.

There are elements of expenditure which are shown against the NHS Lothian above but where the resources are used by the social care services delivered by East Lothian Council.

2015/16 £m		2016/17 £m
0.02	NHS Lothian	109.60
0.00	Resource Transfer	-3.23
0.00	Social Care Fund	-4.37
0.02	Total	102.00
0.03	East Lothian Council	44.29
0.00	Resource Transfer	3.23
0.00	Social Care Fund	4.37
0.05	Total	51.89

Both Resource Transfer and the Social Care Fund are resources which are part of the NHS Lothian budget and are shown as expended therein but these funds are used to deliver social care service supplied by East Lothian Council.

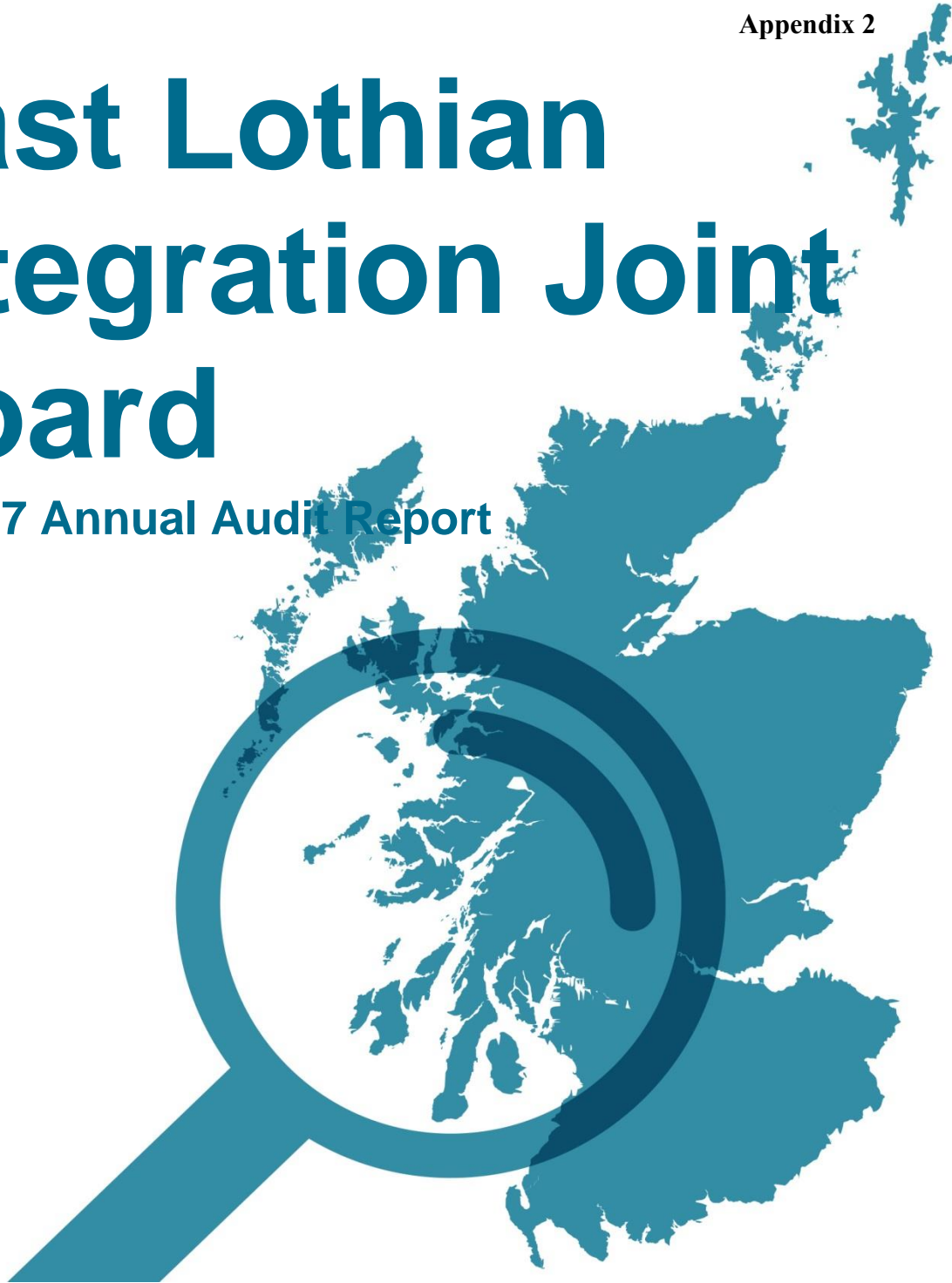
6. VAT

The IJB is not a taxable person and does not charge or recover VAT on its functions.

The VAT treatment of expenditure and income within the accounts depends upon which of the partners is providing the services as these bodies are treated differently for VAT purposes.

East Lothian Integration Joint Board

2016/17 Annual Audit Report



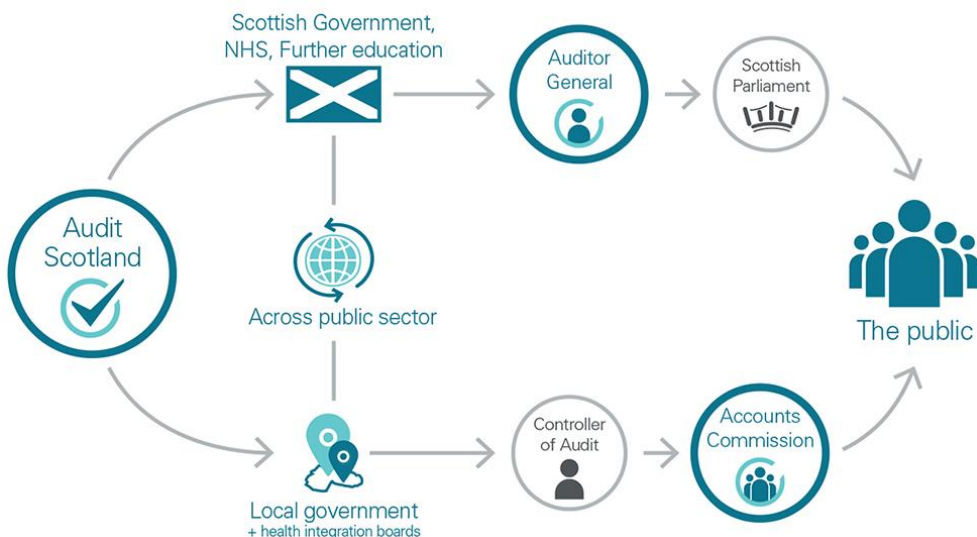
Prepared for the East Lothian Integration Joint Board and the Accounts Commission

12 September 2017

Who we are

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

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



About us

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

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

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

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Key messages

2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, the remuneration report, the management commentary and the annual governance statement.

Financial management

- 2 The Integration Joint Board (the IJB) broke even and spent £153.88m on delivering health and social care services. However both East Lothian Council and NHS Lothian were required to provide additional resources to achieve a break-even position.
- 3 In 2016/17 financial assurance reports were presented to the Board. Quarterly budget monitoring reports are due to be presented in 2017/18 which will further assist members in identifying emerging risks.
- 4 There was no risk sharing framework in place between the IJB and its partners during the year and there are no plans to formalise this going forward.

Financial sustainability

- 5 2017/18 budget proposals from the partner bodies have been formally accepted. The IJB intends to break-even in 2017/18.
- 6 The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.
- 7 The IJB is working with partners to identify and agree the remaining 2017/18 savings required in order to break-even. Robust plans need to be in place as it is unlikely that further non-recurrent funds will be made available by partners to fund any further pressures.

Governance and transparency

- 8 The IJB has adequate governance arrangements in place that support the scrutiny of decisions by the members.
- 9 The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is ongoing to refine the risk management and review processes within the IJB.

Value for money

- 10 The IJB needs to ensure that it produces an annual performance report in line with the timeline requirements of the Act and that it is relevant to the IJB's operations and presented to members in a timely manner.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of East Lothian Integration Joint Board (the IJB). The report is divided into sections which reflect our public sector audit model.
2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit and Risk Committee. It comprises an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public sector audit requirements as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
 - an audit of the IJB's 2016/17 annual accounts and
 - the issue of an independent auditor's report setting out our opinions.
4. The IJB is responsible for preparing the annual accounts that show a true and fair view and for establishing effective arrangements for governance which enable them to successfully deliver their objectives.
5. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supplementary guidance, and are guided by the auditing profession's ethical guidance.
6. These responsibilities include giving independent opinions on the financial statements, the remuneration report, the management commentary and the

annual governance statement. We also review and report on the arrangements within the IJB to manage its performance, and use of resources. In doing this, we aim to support improvement and accountability.

7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice \(2016\)](#) and supplementary guidance.
8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Our annual audit report contains an action plan at [Appendix 1](#) and sets out specific recommendations, responsible officers and dates for implementation.
9. Communication in this report of matters arising from the audit of the annual accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both the Board and the Accounts Commission and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
12. We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

Part 1

Audit of 2016/17 annual accounts



Main conclusions

Our audit opinions were all unqualified. These covered the financial statements, the remuneration report, the management commentary and the annual governance statement.

Unqualified audit opinions

- 13.** The annual accounts for the year ended 31 March 2017 were approved by the Board on 12 September 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - unqualified opinions on the remuneration report, management commentary and the annual governance statement.
- 14.** We have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of annual accounts for audit

- 15.** We received the unaudited financial statements on 30 June 2017, in line with our agreed audit timetable. Financial information was provided to the IJB in a timely manner from the partner bodies in order to allow it to produce its accounts by the statutory deadline. The partner bodies also provided the IJB with assurance letters confirming that the figures were complete and accurate.
- 16.** The working papers provided with the unaudited financial statements were of a reasonable standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

- 17.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also included within the appendix are the wider dimension risks, how we addressed these and our conclusions.

Materiality

- 18.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

The annual accounts are the principal means of accounting for the stewardship of resources and the performance in the use of those resources.

19. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the annual accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. On receipt of the annual accounts, we reviewed our materiality calculations and re-calculated them based on the figures included in the unaudited accounts.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£1.5 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using professional judgement we have calculated performance materiality at 75% of overall materiality.	£1.2 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.	£15,000

Evaluation of misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit. There were no individual misstatements which exceeded our reporting threshold.

Significant findings

22. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. There are no significant findings arising from the audit of the IJB.

Other Findings

23. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted for and are reflected in the audited financial statements.

Part 2

Financial management



Main conclusions

The Integration Joint Board (the IJB) broke even and spent £153.88m on delivering health and social care services. However both East Lothian Council and NHS Lothian were required to provide additional resources to achieve a break-even position.

In 2016/17 financial assurance reports were presented to the Board. Quarterly budget monitoring reports are due to be presented in 2017/18 which will further assist members in identifying emerging risks.

There was no risk sharing framework in place between the IJB and its partners during the year and there are no plans to formalise this going forward.

Financial management

- 24.** Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the Board's responsibility to ensure that its financial affairs are conducted in a proper manner.
- 25.** As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the Chief Finance Officer has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the IJB
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - IJB members provide a good level of challenge and question budget holders on significant variances.
- 26.** We reviewed the financial regulations and standing orders, which were created on the formation of the IJB, and we consider these to be appropriate. All completed governance documents are accessible through the East Lothian Council website.

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

27. From attendance at the Board / Audit and Risk Committee meetings, and a review of the associated papers we have concluded that the Chief Finance Officer (CFO) has appropriate status within the IJB. Updates are provided by the CFO to the Board / Audit and Risk Committee and members provide a good level of challenge and scrutiny on the material presented.
28. The Integration Scheme sets out the expectation that as a minimum, quarterly budget monitoring reports showing budget versus forecast outturn for the delegated functions will be provided to the IJB by the partners. The IJB would then use this information to produce its own quarterly reviews. However during 2016/17 no quarterly budget monitoring information was made available for the IJB with the first quarterly report presented to the August 2017 Board. In the absence of the quarterly reports, the CFO was issuing financial assurance papers to the IJB. These updates provided members with details of work undertaken to formally agree funding in the year for IJB delegated services carried out by the partners.
29. The absence of adequate budget monitoring arrangements increases the risk that the IJB will fail to identify and remedy with its partners any projected overspends.

Recommendation 1 (Appendix 1, Action plan point 1)

For 2017/18, the IJB needs to finalise its financial plan based on the actual offers from the partners and ensure that up to date information of performance against budget is reported quarterly to members.

30. The Integration Scheme stipulates that the IJB should develop, with its partners, a risk sharing framework so that accountability for any future overspends is understood and shared by the partners. There was no risk sharing arrangement in place for 2016/17 and we confirmed with the CFO that there will not be one set up for 2017/18 with the objective that the IJB will break-even annually.
31. However, during 2016/17 we noted that the Adult Wellbeing part of the budget from East Lothian Council had an efficiency challenge of approximately £2.3 million and there was no comprehensive plan to wholly meet this. The health part of the budget allocation, excluding set aside, included recognised efficiency challenges of approximately £1 million. In the absence of such a risk sharing framework and given the funding pressures outlined above, there is a risk that accountability for any likely overspends is not clearly set out.

Recommendation 2 (Appendix 1, Action plan point 2)

The IJB should put in place a risk sharing agreement with its partners to ensure that the lines of accountability regarding overspends are clearly set out.

Financial performance in 2016/17

32. The IJB does not have any assets nor does it directly incur expenditure or employ staff, other than the Chief Officer and CFO. All funding and expenditure for the IJB is incurred by the partner bodies (East Lothian Council and NHS Lothian) and processed in the partner accounting records. Arrangements are in place to identify this income and expenditure and report this financial information to the IJB.

33. The year-end outturn position is a break-even position. Total net expenditure for the IJB delegated services in 2016/17 was £153.9 million. A budget summary for the year is shown in [Exhibit 4](#) below.
34. The IJB agreed the 2016/17 budget proposal from East Lothian Council at its March 2016 meeting for an initial budget of £43.8 million. During the year the Council made an additional £1 million available to cover overspends in social care budgets. At year end, the Council had contributed a £595,000 to permit the IJB to achieve a break-even position on delegated social care functions.
35. NHS Lothian submitted a formal funding proposal to the IJB in June 2016. The offer of £86.8 million of funding was approved at the August 2016 meeting of the IJB.
36. Health Board budgets are subject to revision during the year and NHS Lothian provided additional funding in the year of £6.93 million. NHS Lothian also entered into a formal funding arrangement at the end of 2016/17 to cover any overspends in health delegated functions. At year end, NHS Lothian provided additional funding of £1.05 million to the IJB to permit the IJB to achieve an overall break-even position.
37. The final contribution from NHS Lothian was £109.60 million, including £10.4 million for non-cash limited functions not included in the initial offer but required to be reported within the IJB financial statements.

Exhibit 4

2016/17 Budget v Actual Summary

IJB budget objective summary	Budget	Additional funding	Actual outturn
	£m	£m	£m
Funding from NHS Lothian	108.54	1.054	109.60
Funding from East Lothian Council	43.68	0.595	44.28
Total funding	152.22	1.649	153.88
Net expenditure			153.88
Surplus/(deficit)			0
Earmarked reserves			0

Source: East Lothian IJB Financial Update to Board (June 2017)

Internal controls

38. The IJB relies on NHS Lothian and East Lothian Council for its key financial systems such as the ledger and payroll. All transactions are processed through the respective partners' systems and all the controls over these systems are accounted for within these two bodies rather than the IJB.
39. As part of our audit approach and in accordance with ISA 402, we sought assurances from the external auditors of NHS Lothian and East Lothian

Council and confirmed there were no weaknesses in their respective systems of internal control.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

40. The IJB has a range of activities in place designed to maintain standards of conduct including a Code of Conduct for members. In addition, a register of members' interests is in place for Board Members and senior officers.
41. The IJB does not have its own fraud or whistleblowing policies. It relies on the policies in place at the partner bodies.
42. Based on our review we concluded that the IJB has effective arrangements in place for the prevention and detection of bribery and corruption and we are not aware of any specific issues that we need to record in this report.

Part 3

Financial sustainability



Main conclusions

2017/18 budget proposals from the partner bodies have been formally accepted. The IJB plans to break-even in 2017/18.

The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.

The IJB is working with partners to identify and agree the remaining 2017/18 savings required in order to break-even. Robust plans need to be in place as it is unlikely that further non-recurrent funds will be made available by partners to fund any further pressures.

Financial planning

43. The IJB allocates the resources it receives from the health board and council in line with the Strategic Plan. Due diligence was undertaken to consider the sufficiency of the 2016/17 budget provided for the IJB.
44. As noted in [paragraph 33](#) the IJB achieved a break-even position in 2016/17. This was achieved by reaching a mutual agreement with the partner bodies to fund any over-spends.
45. The IJB approved the budget for 2017/18 at its meeting on 30 March 2017. The budget included a base allocation of £43.7 million from East Lothian Council and an indicative budget of £95.1 million from NHS Lothian. A formalised offer of £95.2 million from NHS Lothian was approved at the 29 June 2017 meeting of the IJB. 2017/18 levels of funding reflected a £131,000 decrease in base funding from East Lothian Council. The IJB expects to deliver a breakeven position again in 2017/18.
46. The 2017/18 financial assurance process identified £3.8 million of efficiencies that were required. Plans have been developed to achieve £3.3 million savings leaving a gap of £500,000 to be addressed.
47. Budget monitoring will be critical to ensure the IJB achieves the projected break-even position. Partner bodies are unlikely to cover over-spends in 2017/18 and therefore regular monitoring and reporting is crucial to address shortfalls and implement budget recovery plans.
48. The IJB has no formalised process in place for financial planning and budget forecasting for the medium to long term. The Strategic Plan recognises that such planning is of particular importance where there are significant and growing demand pressures driven by demographic and social factors. We recognise that the IJB is currently working with its partners to develop multi-year financial plans but this has its challenges due to funding for bodies only being agreed on an annual basis by the Scottish Government. However this should not prevent the IJB from preparing medium to long term financial plans

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.

based on sensitivity analysis and scenario planning for possible budget changes.

Recommendation 3 (Appendix 1, Action plan point 3)

The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.

Reserves strategy

- 49. The IJB approved its reserves strategy at the Board meeting in March 2016. It outlines the type of reserves the IJB are allowed to hold including unusable reserves (the Employee Statutory Adjustment account required by legislation) and general fund reserves. The reserves policy sets out that the IJB will set the general reserve level at 2% of the IJB revenue budget.
- 50. In 2016/17 the IJB did not have resources to fund the general fund reserve and it is unlikely to occur in 2017/18 with the aim being for the IJB to break-even.
- 51. We are satisfied that the IJB's reserves policy adequately sets out the circumstances in which reserves can be created, and the governance arrangements around their use.

Efficiency savings

- 52. NHS Boards and councils have faced several years of financial constraints and this is expected to continue in the coming years. The ageing population and increasing numbers of people with long term conditions and complex needs have already placed significant pressure on health and social care budgets.
- 53. The maintenance of a sound financial position going forward is dependent on achieving the efficiency savings to bridge the gap between available funding from current sources and the cost of services.
- 54. In March 2017, it was reported that the 2017/18 financial pressures identified in the financial assurance process were approximately £3.8 million of which plans had been developed for £3.3 million. There remains £500,000 to be addressed. Pressures include £300,000 in the set aside services and £200,000 in social care services. The IJB will need to make efficiency savings to maintain financial balance in 2017/18 and beyond. Reports to the Board for 2017/18 state that it is unlikely that NHS Lothian and East Lothian Council would be able to make any further non-recurrent funds available to support any in-year pressures.

Recommendation 4 (Appendix 1, Action plan point 4)

The IJB need to identify and agree with the partners the remaining 2017/18 savings required in order to break-even. Robust plans need to be in place as it is unlikely that further funds will be made available by partners to fund any further pressures.

- 55. The IJB has a long term plan to redesign the delivery of functions delegated to it in order to reduce the costs of delivery in line with the projected reduction in resources available to the IJB. This is ongoing.

Part 4

Governance and transparency



Main conclusions

The IJB has adequate governance arrangements in place that support the scrutiny of decisions by the members.

The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is ongoing to refine the risk management and review processes within the IJB.

Governance arrangements

56. The IJB was formally established on 27 July 2015 but did not have operational responsibility in the first year for delegated services. These services were delegated to the IJB on 1 April 2016.
57. The IJB has representation from a range of service users and partners including four elected voting members nominated by East Lothian Council and four members from NHS Lothian. The Board meets on a near-monthly basis and in 2016/17 met 10 times.
58. The IJB is responsible for the management and delivery of health and social care services for East Lothian and is supported by an Audit and Risk Committee. The Audit and Risk Committee aims to meet on a quarterly basis however only met twice in 2016/17. We attend and review minutes of Board and Audit and Risk Committee meetings to assess their effectiveness.
59. The IJB is supported in its work by a Chief Officer and a CFO. The Chief Officer provides strategic and operational advice to the IJB while the CFO is responsible for financial management including budget monitoring reports.
60. As part of the wider review of governance arrangements across the public sector, we completed a follow-up of the [Role of Boards](#) national report, published in September 2010. This involved a review of documentation, discussions with key officers and attendance at committee meetings. From this work we found:
 - Appropriate level of challenge, scrutiny and discussion at both the IJB and Audit and Risk Committee meetings we attended during the year.
 - Processes and support are in place for member training and development to ensure that all members to succeed in their role.
61. We concluded that overall the IJB has adequate governance arrangements in place and they provide a framework for effective organisational decision making.

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.

Internal audit

62. Internal audit provides the IJB and the CFO with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.
63. The IJB appointed a chief internal auditor and this function is provided by East Lothian Council. We carried out a review of the adequacy of East Lothian Council's internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. The chief internal auditor is supported by the partners in carrying out her role.
64. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. We did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. Reliance was placed on internal audit work, however, in respect of corporate governance, financial governance, and performance management.

Risk management

65. We reviewed the risk management arrangements within the IJB to assess their effectiveness and appropriateness during the planning stage of our audit. The Integration Scheme stipulates that the IJB will develop its own risk management strategy separate to that of its partners, setting out the IJB's risk appetite, including, among other elements, procedures for identifying and managing risk.
66. The IJB has not developed its own risk management strategy, and has chosen to rely on the risk management strategy of its partners in developing its own risk register. This raises the risk that the IJB is not in compliance with the Integration Scheme with respect to risk management. It also raises risks that the risk register that has been developed for the IJB will be less effective in capturing and monitoring all of the relevant risks for the IJB.
67. At the February 2017 meeting of the Audit and Risk Committee, the risk register was presented. However we noted there was no covering paper provided to members, individual risks had not been subject to review since June 2016 and the risk register did not identify actions required to reduce/minimise the risks to a tolerable level. The risk management process is still developing for the IJB.

Recommendation 5 (Appendix 1, Action plan point 5)

The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is still to be done to refine the risk management and review processes within the IJB.

Transparency

68. Transparency means that the public, in particular, local residents have access to understandable, relevant and timely information about how the IJB is taking decisions and how it is using resources.
69. The IJB's purpose and vision are outlined in its Strategic Plan. The plan outlines a number of national and local policies, strategies going forward and the key priorities going forward. The Strategic Plan sets out the actions that the partnership will take and provides a basis for measuring how well they are

doing and how these are linked to the IJB's priorities and the national outcomes.

70. Full details of the meetings held by the IJB and the Audit and Risk Committee are available through the East Lothian Council website and both types of meetings are open to the public to attend. The website also contains a section for the IJB papers and Audit and Risk Committee papers available for downloading/viewing and this is considered good practice as not all public sector bodies offer this level of transparency, particularly when it comes to the Audit and Risk Committee.

Other governance arrangements

71. The IJB is committed to ensuring the involvement of partner groups including community planning groups, the third sector, the independent sector and local communities. The Strategic Plan and local planning arrangements enable partners to engage in and support the delivery of the health and social care provision.
72. Overall, we concluded that the IJB conducts its business in an open and transparent manner.

Part 5

Value for money



Main judgements

The IJB needs to ensure that it produces an annual performance report in line with the timeline requirements of the Act and that it is relevant to the IJB's operations and presented to members in a timely manner.

Performance Reporting

73. The Public Bodies (Joint Working)(Scotland) Act requires the IJB to publish an annual performance report by 31 July which must include information about:

- Service planning (performance against the national outcomes, the integration principles and strategic planning)
- Financial planning and performance
- How the IJB has secured best value
- Performance in respect of localities
- Details of the outcomes of any inspections by a scrutiny body
- The outcome of any review of the Strategic Plan

74. During 2016/17, the IJB was developing a framework to monitor performance in the above areas however this was still under development and not ready by 31 July. The CFO provided an update on progress at the February 2017 Audit and Risk Committee and the first annual performance report is due to be submitted to the IJB at its August 2017 meeting.

75. There is a risk that the failure to monitor in-year performance in 2016/17 will lead to the IJB failing to meet some or all of the metrics set out by the Act.

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

Performance management

76. In order to achieve value for money the IJB should have effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

77. The Public Bodies (Joint Working) (Scotland) Act 2014 (the Act) and the Integration Scheme for the Board set out the legislative changes required to implement adult health and social care both operationally and financially. One of these is in respect of performance management arrangements.

78. The IJB produced two in-year performance reports for 2016/17 with the first considered by the IJB in August 2016 and the second presented in February 2017. The February update presents an analysis for 19 of the 20 National

Indicators (data was not available for indicator 10 at the time of writing the performance report). The report uses a 'RAG' status to demonstrate performance against the Scottish average. Green indicates that the Health and Social Care Partnership has a value of at least 2.5% better than the Scottish average; amber indicates that the performance is within 5% of the Scottish average and red is based on the performance being 2.5% worse than the Scottish average with percentage bands agreed by the Health and Social Care Partnership.

Recommendation 6 ([Appendix 1, Action plan point 6](#))

The IJB needs to ensure that it produces an annual performance report in line with the timescale requirements of the Act and that it is relevant to the IJBs operations and presented to members in a timely manner.

National performance audit reports

- 79.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17 we published a number of reports which are of direct interest to the Board and these are outlined in [Appendix 3](#).

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Para no.	Issue/risk	Recommendation	Agreed management action/timing
28	<p>1. Budget monitoring</p> <p>Quarterly budget monitoring reports were not produced during 2016/17 as per the Integration Scheme.</p> <p>Risk: The absence of adequate budget monitoring arrangements increases the risk that the IJB will fail to identify and remedy with its partners any projected overspends.</p>	<p>For 2017/18, the IJB needs to finalise its financial plan based on offers from the partners and ensure this is reported quarterly to Members.</p>	<p>The IJB is monitoring the 17/18 position closely and has reported the first quarter position and indicative out-turns to the IJB in August 2017. The financial position will be updated on a quarterly basis and the CO and CFO are progressing any required recovery plans with the partners.</p> <p>Action by the CO and the CFO. Quarterly reports.</p>
30	<p>2. Risk sharing framework</p> <p>There is no risk sharing framework in place between the IJB and its partners.</p> <p>NHS Lothian and East Lothian Council were required to provide additional funding in the year in order for the IJB to deliver a break even position.</p> <p>In 2017/18 and future years, in the absence of such funding agreements, the IJB may fail to achieve this break-even position.</p> <p>Risk: In the absence of this framework, and given the funding challenges going forward, there is a risk that lines of accountability for overspends are unclear and go unresolved.</p>	<p>The IJB should put in place a risk sharing framework with its partners to ensure that the lines of accountability regarding overspends are clearly set out.</p>	<p>As above, the IJB will follow the actions to manage overspends as laid out in the Integration Scheme. Having reported the potential for an overspend at to the IJB's August 2017 meeting, the CO and the CFO have requested recovery plans from the partners. The CFO will continue to report this position to the IJB .</p> <p>Action – CFO, updated quarterly.</p>
48	<p>3. Financial Planning</p> <p>The IJB does not have a medium to long term financial plan in place. Despite the IJB being fully funded by partners</p>	<p>The IJB needs to develop medium to long term financial plans to assist in addressing upcoming and future budget challenges.</p>	<p>The IJB is working with its partners who will provide it with indicative three year allocations. Having considered the resources available to it</p>



Para no.	Issue/risk	Recommendation	Agreed management action/timing
	<p>who only receive annual funding allocations from the Scottish Government, this should not prevent the IJB from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes.</p> <p>Risk: Issues relating to financial sustainability and planning in the medium to long term are not identified in a timely matter and this could prevent future delivery of key services.</p>		<p>the IJB will prepare a three year financial plan laying out how it will achieve its Strategic Plan. The partners are committed to supporting the IJB in these actions and the CFO and CO have been discussing and preparing these plans working with both the partners and the IJB's Strategic Planning Group.</p> <p>The proposal is to prepare an outline plan by January 2018.</p> <p>Action CFO</p>
54	<p>4. Efficiency savings</p> <p>For 2017/18 the IJB is required to deliver £3.3 million savings with £500,000 yet to be identified. Robust plans need to be in place as it is unlikely that further funds will be made available by partners to fund any further pressures.</p> <p>Risk: The IJB may not be able to deliver the targeted savings in 2017/18 and will not break-even.</p>	<p>The IJB needs to identify and agree the remaining 2017/18 savings required in order to break-even.</p>	<p>As above, the IJB has approached the partners regarding their efficiency and recovery plans and this will be reported as part of the quarterly financial reporting.</p> <p>Action CFO, updated quarterly.</p>
65	<p>5. Risk management</p> <p>The IJB has not developed its own risk management strategy, and has chosen to rely exclusively on the risk management strategy of its partners in developing its own risk register.</p> <p>Risk: The IJB is not in compliance with the requirements of the Integration Scheme with respect to risk management and could consequently be less effective in capturing and monitoring all of the relevant risks for the IJB.</p>	<p>The IJB should develop its own risk management strategy to ensure it is complying with the Integration Scheme. Further work is still to be done to refine the risk management and review processes within the IJB.</p>	<p>Agreed.</p> <p>This will be developed with the IJB's Audit and Risk committee.</p> <p>Action, CO and CFO, to be completed by the end of the financial year.</p>
73	<p>6. Performance reporting</p> <p>The annual performance report was not submitted in line with the Act during 2016/17.</p>	<p>The IJB needs to ensure that it produces an annual performance report in line with the requirements of the Act and that it is relevant to the</p>	<p>The Annual performance report was submitted to the IJB for approval at its August 2017 meeting. The report has now been published on the IJB's</p>



**Para
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

Risk: There is a risk that the failure to routinely monitor and report in-year performance could lead to the IJB failing to meet some or all of the metrics set out by the Act as well as failure to address issues as they become known.

IJBs operations and presented to members by 31 July each year.

website.

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Focussed testing of journal entries and accruals.</p> <p>Review of accounting estimates.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Service auditor assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p>	<p>Substantive testing of journals identified no errors.</p> <p>Accounting estimates, where applicable were satisfactory.</p> <p>No significant transactions outside the normal course of business were identified during the audit process.</p> <p>Service auditor assurances were received and were satisfactory.</p> <p>No fraud concerns were identified from our work in relation to the risk of management override of control.</p>
<p>2 Preparation of Financial Statements</p> <p>The 2016/17 financial statements will require income, expenditure and year end balances to be agreed with East Lothian Council and NHS Lothian.</p> <p>There is a risk that the procedures for agreeing the year end balances are not fully embedded and that the financial statements are not delivered to the agreed timescale and in the required format.</p>	<p>Continued engagement with officers throughout the year and prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</p> <p>Service auditor assurances obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p> <p>Checked that accounting policies are appropriate and complete.</p> <p>Review of compliance with accounting standards as part of financial statements audit.</p>	<p>There was on going communication with CFO over the preparation of the accounts to ensure relevant information was included within the annual accounts.</p> <p>The IJB met the agreed timetable for the provision of information to the health board and for the preparation of its own annual accounts. The IJB provided information to the health board within the agreed timescale and the IJB accounts were prepared and submitted to audit within the required timetable.</p> <p>Assurances were received from the auditors of East Lothian Council and NHS Lothian. They provided sufficient assurance over the completeness, accuracy and allocation of IJB costs.</p> <p>Compliance with accounting standards and legislation was</p>





















Audit risk	Assurance procedure	Results and conclusions
		<p>assessed during the accounts audit process. No compliance issues were identified.</p> <p>The governance arrangements at the IJB were assessed against legislative requirements.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>3 Financial sustainability</p> <p>The 2016/17 East Lothian IJB budget allocations agreed with the partners contain significant efficiency challenges, for which comprehensive savings plans have not been agreed. As yet, there has been no formal budget monitoring taking place at IJB level.</p> <p>There is a risk that any overspends arising will not be identified and remedied and will result in a year-end budget overspend for the IJB.</p>	<p>Confirmed levels of funding agreed and received from the funding partners to assess whether budgets have been met.</p> <p>Attend committee meetings and review minutes of meetings to gain assurance over the reporting of budget monitoring papers to Board members.</p>	<p>Budget monitoring was not regularly reported during the year. However, quarterly monitoring reports are planned to be reported to members from August 2017. During 2016/17 financial assurance reports by the CFO were presented to the Audit and Risk Committee. This is reported in Appendix 1, action plan point 1.</p> <p>Overspends against budget were identified for delegated functions delivered by both NHS Lothian and East Lothian Council.</p> <p>Risk sharing agreements with the funding partners resulted in the respective partners providing additional funding, allowing the IJB to achieve a break-even position however we note there is no formal risk sharing agreement in place.</p>
<p>4 Financial sustainability - financial planning</p> <p>The IJB has yet to agree a long-term financial risk-sharing agreement with its partners. For 2016/17, NHS Lothian has agreed to underwrite any overspend of the health element of the IJB budget. An agreement has yet to be reached with East Lothian Council with respect to the current anticipated overspend on Adult Wellbeing.</p> <p>The risk is that in the absence of a financial risk-sharing agreement accountability for any budget overspends will lie with the IJB.</p>	<p>Obtain confirmation of the risk-sharing agreements entered into with the funding partners.</p> <p>Confirm the agreement entered into with East Lothian Council to make available £1m of additional funding to cover potential overspends.</p>	<p>Our audit work included receiving confirmation from funding partners of the risk-sharing agreements that were entered into.</p> <p>The funding partners provided additional funding in line with the risk-sharing agreement allowing the IJB to break-even in 2016/17.</p> <p>This has been reported in Appendix 1, action plan point 2.</p>
<p>5 Financial management</p> <p>The IJB has no formalised process in place for financial planning and budget forecasting from 2017/18</p>	<p>Reviewed and assessed progress towards developing and agreeing a long-term financial plan.</p>	<p>This is still not in place for the medium to long term and has been reported in Appendix 1, action plan point 3.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>onwards.</p> <p>There is a risk that any issues relating to financial sustainability and delivery of the strategic plan in the medium to long-term are not identified sufficiently early to be resolved with partners.</p>		
<p>6 Governance & Transparency</p> <p>The Public Bodies (Joint Working) (Scotland) Act requires IJBs to publish annual performance information in various areas including service planning. The IJB is currently developing a framework for measuring performance.</p> <p>There is a risk that failure to monitor in-year performance in 2016/17 will lead to noncompliance with the Act.</p>	<p>Reviewed and assessed progress towards publishing annual performance information and indicators.</p> <p>Attended committee meetings of the IJB and Board and reviewed Performance Report papers presented to assess progress made.</p>	<p>The Chief Officer reported to committee in June 2017 that the 2016/17 would be considered at the meeting of 24 August 2017.</p> <p>We attended the August 2017 Board meeting where the annual performance report was presented however we have raised a recommendation in Appendix 1, action plan point 6 that the timing of this report needs to be in line and meet the requirements of the Act.</p>

Appendix 3

Summary of national performance reports 2016/17



Month	Report Title	Report Title	Report Title
Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

IJB relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[NHS in Scotland 2016](#) – October 2016

[Social work in Scotland](#) – September 2016

[Scotland's NHS workforce](#) – February 2017

East Lothian Integration Joint Board

2016/17 Annual Audit Report

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