



Integration Joint Board 13th September 2018

Subject: **Audited Annual Accounts 2017-18**

Purpose: The Board is required to approve the audited annual accounts for 2017-18 for issue by 30 September 2018 and to consider the report from External Audit.

Recommendation: That the Board:

- (a) note that Deloitte LLP have completed their audit of the annual accounts for 2017-18 and have issued an unqualified independent auditor's report;
- (b) approve the Audited Annual Accounts to be signed for issue.

Glossary of Terms

NHS AA	NHS Ayrshire and Arran
HSCP	Health and Social Care Partnership
MTFP	Medium Term Financial Plan

1. EXECUTIVE SUMMARY

1.1 The Integration Joint Board (IJB) were required to produce a set of annual accounts for 2017-18. These accounts were produced within the statutory timescale and have been subject to independent audit by the Integration Joint Board's external auditors, Deloitte LLP. The audit process has been completed and external audit have issued an unqualified independent auditors report.

The annual accounts were submitted to Deloitte LLP for audit in accordance with the agreed timetable. The external auditor is required to report on certain matters arising to those charged with governance in sufficient time to enable appropriate action to be taken before the financial statements are approved and certified.

1.2 The Audited Annual Accounts require to be approved by the IJB prior to 30 September 2018. As part of the independent audit there were some minor changes required, these were mainly presentational and to provide additional information or clarification and there are no changes to the financial position reported to the IJB in June. Deloitte LLP's External Audit Annual Audit Report includes the findings of the

	audit and an action plan outlining recommendations for improvement identified during the course of the audit.
2.	BACKGROUND
2.1	The Integration Joint Board is subject to the audit and accounts provisions of a body under section 106 of the Local Authority Government (Scotland) Act 1973. This requires annual accounts to be prepared with the reporting requirements specified in the relevant legislation and regulations. The requirements are proportionate to the number of transactions of the Integration Joint Board whilst complying with the requirement for transparency and true and fair reporting in the public sector.
2.2	The audited annual accounts have been prepared in accordance with the Code of Practice on Accounting for Local Authorities in the United Kingdom 2017-18. Additional guidance was issued by the Scottish Government Integrated Resources Advisory Group (IRAG) and CIPFA LASAAC and this guidance has been followed to produce the unaudited accounts. In addition support was provided by CIPFA and Audit Scotland to ensure a consistency of approach and shared best practice across Integration Joint Boards.
2.3	The Audited Annual Accounts for 2017-18 are included as Appendix 1, these incorporate the independent auditors report. Deloitte LLP are able to conclude that the Integration Joint Board's accounts present a true and fair view of the IJB.
2.4	Appendix 2 includes a covering letter from Deloitte LLP which incorporates their ISA260 letter "report to those charged with governance" together with their proposed Independent Auditor's Report and the letter of representation to be signed by the Chief Finance Officer (NAHSCP) as responsible officer for North Ayrshire Health and Social Care Partnership. Deloitte LLP's External Audit Annual Audit Report to members, which summarises the findings of the audit is attached at Appendix 3.
2.5	Deloitte LLP have given an unqualified opinion that the 2017-18 financial statements give a true and fair view of the financial position and expenditure and income of the IJB for the year, concluding that the accounts have been properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements. No monetary adjustments have been identified and the overall financial position remains as reported to the IJB on 21 June 2018.
2.6	As part of their audit work, alongside the audit of the annual accounts, Deloitte LLP assessed the key financial and strategic risks being faced by the IJB, reviewing the IJB's financial position and aspects of financial management, sustainability, transparency, governance and value for money. Included in the Deloitte LLP annual report is an action plan with recommendations for improvement, these have been agreed with management and planned actions and timescales have been aligned to each recommendation. Representatives from Deloitte LLP will provide an overview and further feedback on

	the report at the meeting.
2.7	The Integration Joint Board are required to formally approve the Audited Annual Accounts prior to 30 September 2018, the IJB are asked to approve the accounts for signature and issue. Thereafter they will be published on the partnership website.
3.	PROPOSALS
3.1	<p>The Board is invited to :-</p> <p>(a) note that Deloitte LLP have completed their audit of the annual accounts for 2017-18 and have issued an unqualified independent auditor's report;</p> <p>(b) approve the Audited Annual Accounts to be signed for issue.</p>
3.2	<u>Anticipated Outcomes</u>
	<p>The annual accounts are a key statutory reporting requirement and can be a useful way to join up financial and service delivery performance information in a readily available public document, the IJB has a statutory responsibility to approve the Audited Accounts for issue by 30 September 2018.</p> <p>Implementing the action plan agreed with External Audit will allow the IJB to evidence further improvements to financial planning, sustainability, governance and reporting, demonstrate value for money and improve the experience of members.</p>
3.3	<u>Measuring Impact</u>
	Progress against the action plan will be monitored by the Performance and Audit Committee during 2018-19.
4.	IMPLICATIONS

Financial :	The IJB are required to consider and approved the Audited Annual Accounts for 2017-18 by 30 September 2018.
Human Resources :	None
Legal :	None
Equality :	None
Environmental & Sustainability :	None
Key Priorities :	None
Risk Implications :	None

Direction Required to Council, Health Board or Both	Direction to :-	
	1. No Direction Required	X
	2. North Ayrshire Council	

	3. NHS Ayrshire & Arran	
	4. North Ayrshire Council and NHS Ayrshire & Arran	

5.	CONSULTATION
5.1	<p>The unaudited annual accounts were advertised and made publicly available for inspection, the audited accounts will require to be published by 30 September 2018. There were no objections noted from the public inspection.</p> <p>The Chief Officer and other officers of the IJB have been consulted during the audit process.</p>
6.	CONCLUSION
6.1	Deloitte LLP have issued an unqualified opinion on the 2017-18 annual accounts, as part of their annual report they have included a number of areas for improvement which will be taken forward during 2018-19.

For more information please contact:

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ANNUAL REPORT AND FINANCIAL STATEMENTS 2017–18



**NORTH AYRSHIRE
Integration Joint Board**



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Management commentary

This publication contains the financial statements of North Ayrshire Integration Joint Board (IJB) for the year ended 31 March 2018.

The Management Commentary outlines the key messages in relation to the IJB's financial planning and performance for the year 2017-18 and how this has supported delivery of the IJB's strategic priorities. This commentary also looks forward, outlining the future financial plans for the IJB and the challenges and risks that we will face as we strive to meet the needs of the people of North Ayrshire.

North Ayrshire IJB

Each of the three Ayrshire health and social care partnerships established their Integration Joint Boards on 1 April 2015. The IJB's purpose is to improve the health and wellbeing of local people, create support within our communities and deliver joined-up care pathways for people who use health and social care services, particularly those who have complex care needs.

North Ayrshire Health and Social Care Partnership (NAHSCP/the Partnership) is the name given to the service delivery organisation for functions which have been delegated to the IJB.

NAHSCP is facing significant challenges.

In 2016, NAHSCP launched a refreshed strategic plan, *The way ahead*, outlining our ambitions for 2016–2018. The plan sets the key strategic priorities that will ensure that we deliver our vision. It seeks to address the increasing health inequalities in North Ayrshire and focuses on improving the efficiency and quality of the services being provided, putting individuals, families and communities at the heart of the plan.

North Ayrshire Health and Social Care Partnership vision is:

'All people who live in North Ayrshire are able to have a safe, healthy and active life'

This vision is supported by five strategic priorities:



NAHSCP priorities

North Ayrshire Council and NHS Ayrshire and Arran delegate responsibility for the planning of services to the IJB. The IJB commissions services from North Ayrshire Council and NHS Ayrshire and Arran and is responsible for the operational oversight of integrated services. NAHSCP Chief Officer is responsible for the operational management of integrated services.

The Chief Officer is supported by heads of service for each service area and the senior management team. A dedicated Chief Finance and Transformation Officer for NAHSCP was introduced during 2017–18, with the post filled on an interim basis until a permanent appointment is made.



NAHSCP structure

The IJB Strategic Plan is supported by day to day management plans and individual service strategies. These plans and strategies provide greater detail on how the IJB will deliver on its key priorities and identifies the resources required for implementation. Further, implementation of the strategic plan is key for the Partnership to achieve the nine National Health and Wellbeing Outcomes set by the Scottish Government.

The strategic plan also complements North Ayrshire Community Planning Partnership's Local Outcome Improvement Plan (LOIP) and the NHS Ayrshire and Arran Local Delivery Plan. This is vital to ensure that our limited resources are targeted in a way that makes a significant contribution to our priorities.

North Ayrshire today

North Ayrshire is home to 136,000 people and covers an area of 340 square miles and includes the islands of Arran, Great Cumbrae and Little Cumbrae.

The area provides a number of opportunities for those who live and work here. However we also face a number of significant challenges as North Ayrshire is one of the most deprived areas of Scotland. We have high levels of unemployment, significant number of people on low income and almost a third of our children live in poverty.

We know that the population of North Ayrshire is expected to fall over the next 10 years, and we expect that there will be fewer people aged 65 and under, reducing the number of working age adults. We also expect that the number of people aged 65+ will increase by 20%, with the highest increase (38%) in those aged 75 or over.

According to Scottish Index of Multiple Deprivation (SIMD) 2016, **39%** of North Ayrshire's residents live in areas identified as amongst the **most deprived in Scotland**;

39% equates to almost **53,000** people.



Levels of multi-morbidity

(people with more than one chronic medical condition) are higher in the most deprived areas. For example North Coast locality has lower levels of deprivation compared with other areas in North Ayrshire and as such, have lower levels of people with multi-morbidities (**11% for those 65 and over**) compared with areas with higher levels of deprivation, such as Three Towns, where multi-morbidity levels are much higher (**36% for those 65 or older**).



The number of children living in poverty

is increasing each year: In 2016 the Child Poverty Action Group (CPAG) reported that **7,051 (30.4%)** children in North Ayrshire lived in poverty, the second highest level of child poverty in Scotland (Glasgow City has the highest).

A snapshot of achievements



now in Ardrossan,
Garnock Valley, Irvine

Carers Appreciation Card, entitles local carers to receive, discounts, offers and concessions with a range of local businesses.



Distributed **£50,000** to **42 local projects** via the Partnership's first participatory budgeting event.

Collaborated with the **National Galleries of Scotland** to provide learning experiences to young people.

Enhanced our **Universal Early Years Team** to include, social work, health visiting, speech & language therapy, Money Matters, mental health nursing and family nurturers.



Rolled out **Partnership Community Link Workers** to 17 GP practices across North Ayrshire.



Launched the Partnership's integrated drug and alcohol service, **NADARS**.

Supported more people to stay at home, following 999 calls, thanks to joint working with our **Community Alert Team** and **Scottish Ambulance Service**.

In an emergency

999

Since 2015, the Change Team has **enabled 36 projects** across the Partnership. This work has **generated an additional £3.378million investment**, **saved an estimated £1.192million** and generated costs avoidance (of an estimated £1.299million) through work to better manage demand.

We engaged with **2500 people**
in North Ayrshire on 6 June 2017 #WMTY17



The financial plan

Strong financial planning and management is paramount to ensure that our limited resources are targeted to maximise the contribution to our objectives. Delivery of services in the same way is not financially sustainable. The updated strategic plan approved for 2018–21 is underpinned by the need to transform care models to find new solutions as the partnership might not always be the first source of support.

The ability to plan based on the totality of resources across the health and care system to meet the needs of local people is one of the hallmarks of integrated care. Medium term financial planning is key to supporting this process and identifying the transformation which is required to provide sustainable services to the local community over the medium term.

The Medium Term Financial Plan (MTFP) is currently being refreshed and will be key to supporting the delivery of the strategic plan. It sets out our plans to start to deliver a shift in care from a hospital setting to a community setting within the resources available.

Organisational performance

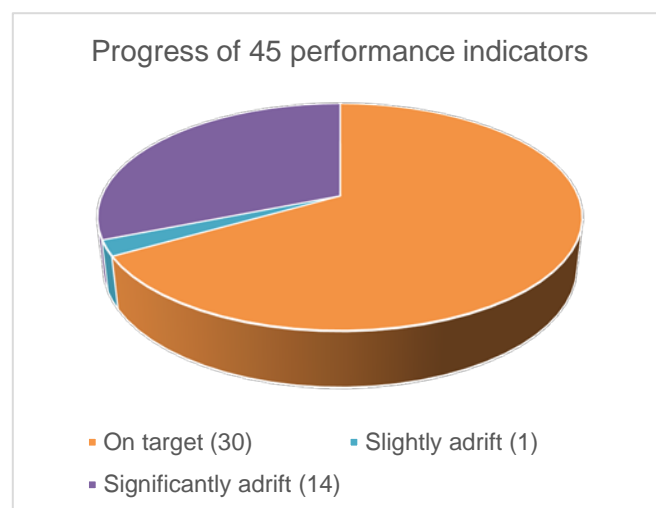
Changes to services have to make a difference to people's lives and North Ayrshire Health and Social Care Partnership continually monitor our services, report and review them in various ways.

It is important that we report the right level of performance information at the right level of the organisation. In all of our performance monitoring and reporting, we show trends over time, where we are against target and how we compare with other geographical areas, where available. We monitor against all the agreed national indicators, including Local Government Benchmark Framework (LGBF), Ministerial Steering Group Indicators, the NHS' Local Delivery Plan HEAT targets, HSCP national indicators, as well as a range of local defined measures.

All reports comprise of a series of key performance indicators and key actions, which link directly back to our strategic plan. Where an indicator or action is off-track, a commentary is provided on steps being taken to improve performance.

Performance is reported at a number of levels within the organisation including Performance and Audit Committee, the IJB, the Joint Review with North Ayrshire Council and NHS Ayrshire and Arran Chief Executives, and ASPIRE (All Service Performance, Information, Review and Evaluation) reviews within each service area.

The latest Joint Review Report (October 2017 – March 2018) showed the progress of the 45 measurable performance indicators:



This compares to 2016–17, where 30 were on target and 10 were significantly adrift.

As part of our commitment to continuous improvement, we recognise this as an area where we could do more and the indicators which are significantly adrift will be the focus of attention. Example of these indicators are:

- Number of days people spend in hospital when they are ready to be discharged
- Number of working days lost due to staff sickness absence
- Admissions from Emergency Department (rate per 1000) into acute hospital

- Care at home capacity (hours) lost due to cancelled hospital discharges
- Number of hospital patients waiting for care at home services
- Number of people delayed, at point of discharge from hospital to a care home, after funding has been confirmed
- Number of people waiting for community mental health support for more than 18 weeks
- Amount of time people wait for psychological therapies treatment

We have produced our third annual performance report (July 2018). This captures our main achievements in 2017–18, our performance against national outcomes and outlines what we need to do to improve. Click this link to access our annual performance report (www.nahscp.org/wp-content/uploads/sites/101/2018/08/NAHSCP-APR-2017-18-270718.pdf)

Annual report and financial statements 2017–18

The annual financial statements report the financial performance of the IJB. The main purpose is to demonstrate the stewardship of the public funds that have been entrusted to the IJB for the delivery of its vision and strategic priorities. The requirements governing the format and content of IJB annual financial statements are contained in The Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The annual financial statements 2017–18 have been prepared in accordance with this Code.

Financial performance

Financial information is part of this performance management framework with regular reporting of financial performance to the IJB. This section summarises the main elements of our financial performance for 2017–18.

Partnership revenue expenditure 2017–18

The year-end position was a £3.533m overspend (£2.562m Council and £0.971m NHS) which was after one off funding from the Challenge Fund of £1.4m to alleviate in year demand pressures and £1.130m investment from the NHS for prescribing. The NHS have agreed to increase the funding to the IJB by £0.971m to bring their element on-line resulting in a final overspend of £2.562m.

2016-17 Budget £000	2016-17 Actual £000	Variance (Fav) / Adv £000		2017-18 Budget £000	2017-18 Actual £000	Variance (Fav) / Adv £000
59,664	60,982	1,318	Health and Community Care	65,543	64,714	(829)
69,752	70,544	792	Mental Health	71,761	72,772	1,011
31,027	32,289	1,262	Children, Families and Justice	33,504	35,965	2,461
48,095	47,929	(166)	Primary Care	49,637	49,518	(119)
4,825	5,038	213	Management and Support Costs	4,266	5,798	1,532
3,458	3,284	(174)	Change Programme	2,870	2,215	(655)
200	200	0	Lead Partnership and Set Aside	0	132	132
217,021	220,266	3,245	TOTAL EXPENDITURE	227,581	231,114	3,533
(217,021)	(217,021)	0	TOTAL INCOME	(227,581)	(228,552)	(971)
0	3,245	3,245	NET EXPENDITURE	0	2,562	2,562

NAHSCP financial performance 2017–18

During the year mitigating action was taken to reduce the projected overspend by £1.1m:

- Savings delivered from Challenge Fund projects
- Review of learning disability care packages
- Review of mental health care packages
- Spending freeze on non-essential non payroll spend not linked to care
- Reduction in overtime
- Review of management and support functions
- Equipment budget – waitlist new clients based on need
- Care at home – delay in the recruitment of staff

The main areas of variance during 2017-18 are given below:

Health and Community Care – underspend of £0.829m mainly relates to mitigating action in relation to equipment spend, additional charging order income and care at home. Care homes (including respite provision) overspent after using £0.977m of Challenge Fund monies to alleviate mitigating action and rehab and reablement also overspent.

Mental Health– overspend of £1.011m is mainly within Learning Disability Community Packages. The Lead Partnership for Mental Health did not achieve the projected bed sale income but this was offset by underspend in other areas like psychology, child and adolescent mental health services (CAMHS), unplanned activities (UnPACs) and funds not required in 2017–18.

Children, Families and Justice – overspend of £2.461m is mainly within Children’s Services and reflects an increased requirement to place children within fostering, adoption and kinship placements as well as residential school placements. There was also a delay in closure of a children’s home, which resulted in less savings than had been anticipated.

Management and Support Costs – overspend of £1.532m mainly relates to the unachieved NHS CRES (cash releasing efficiency saving) of £1.165m.

Lead Partnership

Each of the three Ayrshire IJBs reported a balanced position on their lead/ hosted service. This position was achieved by a range of actions including vacancy management; additional funding from NHS Ayrshire and Arran, application of non-recurring funding and delivery of cost reductions. The specific approach in each partnership was agreed by the relevant IJB.

The table (*NAHSCP financial performance, page 7*) reflects the budget managed by the IJB during the year, and excludes the net impact of Lead Partnership services of £1.935m. This is the difference between what NAHSCP charges to South and East Ayrshire for the Lead Partnership services it provides on their behalf and what South and East Ayrshire charge us for the Lead Partnership services they provide on our behalf. This is reflected within the financial statements (see page 23).

Challenge Fund

North Ayrshire Council, during the 2017–18 budget setting process, approved the development of an innovative approach for the establishment of a ‘Challenge Fund’. This is an ‘invest to change’ programme which is an innovative approach in Scotland and has attracted attention of Scottish Government.

The Challenge Fund created an opportunity for services, using a change approach, to realise both the required North Ayrshire Council savings and additional savings which could be re-invested in their newly designed service to support future sustainability.

However, during 2017–18 the IJB approved use of £1.4m of the Challenge Fund to alleviate in year cost pressures. £0.977m was allocated to care home placements and £0.423m to learning disability care packages leaving £2.6m for Challenge Fund projects.

Whilst a number of the projects in phase 1 are on track and delivering the transformation and savings anticipated, a number of them have not happened in the timelines planned or realised the amounts envisaged. This will be an area of focus during 2018–19 to ensure phase 1 projects are delivered and phase 2 is developed.

Set Aside Budget

The table (*NAHSCP financial performance, page 7*) reflects the budget managed by the IJB during the year. It excludes the large hospital Set Aside Budget of £28.055m which was allocated at the end of the year to the IJB. The set aside budget is reflected within the financial statements (see page 23).

The deficit of £2.562m relates solely to social care and will be carried forward. Added to the £3.245m deficit brought forward from 2016–17 results in a cumulative deficit of £5.807m.

The Integration Scheme outlines the roles and responsibilities of the partners and the IJB in respect of overspends. In the case of a forecast overspend a recovery plan should be developed. If it is not successful the partners can consider making interim funds available with potential repayment in future years.

North Ayrshire Council has confirmed that there will be no further funding made available in respect of 2017–18 and the cumulative deficit will require to be repaid.

The financial challenges facing the partnership outlining a high level plan to start to bridge the financial gaps including the deficit which have been identified.

Strong financial leadership will be required to ensure that future spend is contained within the budget resources available. Moving forward the plan for 2018–19 is to ensure the following actions are implemented:

- Transformation and change will figure at the forefront of the IJB and NAHSCP agenda throughout 2018–19 and beyond
- Financial governance will be enhanced across those authorised to approve budgets to ensure robust control of expenditure
- Financial performance monitoring will be enhanced via a detailed financial framework allowing early detection and corrective action of adverse spend
- All savings, including the Challenge fund projects will be delivered per the agreed timetable to realise appropriate savings for 2018–19 and beyond
- Refresh of the Medium Term Financial Plan (MTFP) in 2018–19
- Phase 2 of the Challenge Fund will be implemented

Financial outlook, risks and plans for the future

In December 2016, the Scottish Government published the Health and Social Care Delivery Plan which sets out the programme for further enhancing health and social care services. Critical to this is shifting the balance of where care and support is delivered from hospital to community care settings, and to individual homes when that is the best thing to do. This provides a clear impetus to the wider goal of 50% of the health budget being spent in the community by 2021. During 2017–18 the Pan Ayrshire Intermediate Care and Rehab Model was approved by the NHS scrutiny board and will be implemented during 2018–19. This will see a shift from acute to community care.



In March 2017 the IJB approved the first Medium Term Financial Plan. This is being refreshed and will be presented to the IJB in early 2019. The Partnership will continue to face high levels of demand for services, however, it is fundamental that services are commissioned within the resources made available and this will be the highest priority during 2018–19.

Availability of funding for public services correlates with economic growth which continues to be weak with continuing uncertainty on the impact of Brexit.

Other factors impacting on funding for local government services include the protection of other public sector portfolios, implementation of new policy initiatives and the lifting of the public sector pay cap.

The most significant risks faced by the IJB over the medium to longer term, alongside mitigation, are summarised below.

These risks emphasise the importance of effective planning and management of resources. It is therefore crucial that we focus on early intervention, prevention and recovery if we are to work within the total annual partnership budget of just over £225m.

Impact of budgetary pressures	Delivery of the Change Programme	Culture and practice
•Mitigation <ul style="list-style-type: none"> •Medium Term Financial Plan •Strategic Plan •Change Programme •Challenge Fund •Active Demand Management 	•Mitigation <ul style="list-style-type: none"> •Change Programme Steering Group •Programme Leads •Strategic Planning Officers Group (SPOG) •Change Programme Risk Register. 	•Mitigation <ul style="list-style-type: none"> •Challenge Fund Phase 2 •Multi Disciplinary Teams •Families First •Organisation Development Plan •Engagement Surveys

NAHSCP risks

Moving into 2018–19, the Partnership is proactively working to provide safe and effective services for the residents of North Ayrshire within the financial envelope.

To achieve its vision, the Partnership recognises it cannot work in isolation. The Partnership will continue to strengthen relationships with colleagues within the Community Planning Partnership to ensure a joint approach to improving the lives of local people.

Most importantly, the Partnership must work closer with local people and maximise the use of existing assets within communities to improve the overall health and wellbeing of people in North Ayrshire.

Conclusion

The third year as an integrated Health and Social Care Partnership has been both challenging and rewarding.

Our significant transformation programme will continue into 2018–19 with delivery of the Challenge Fund Projects and service redesign.

The IJB has a deficit of £5.807m as it moves into 2018–19. This presents us with a number of challenges, however we are clear that the deficit will need to be recovered over the medium term to deliver financial sustainability for the Partnership. The IJB recognises it must deliver services within its financial envelope for 2018–19.

The scale and pace of change requires to be accelerated. This will be challenging so, while the potential for improvement over the next year is significant, we will need to ensure plans are staged to ensure sustainability and deliverability.

Where to find more information

If you would like more information on IJB strategies, plans and policies and our performance and spending, please refer to the Partnership's website www.nahscp.org



Stephen Brown
Chief Officer

13 September 2018



Bob Martin
IJB Chair

13 September 2018



Caroline Whyte
Section 95 Officer

13 September 2018

Statement of responsibilities

Responsibilities of the IJB

The IJB 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 financial officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Ensure the annual financial statements 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 financial statements



I confirm that the unaudited annual financial statements were approved for signature at a meeting of the IJB on 21 June 2018.

Bob Martin
IJB Chair

13 September 2018

Responsibilities of the Chief Financial Officer

The chief financial officer is responsible for the preparation of the IJB's annual financial statements 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 financial statements, the chief financial 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 financial 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 North Ayrshire IJB as at 31 March 2018 and the transactions for the year then ended.

Caroline Whyte
Section 95 Officer

13 September 2018

Annual governance statement

The Annual Governance Statement explains how North Ayrshire IJB complies with the Code of Corporate Governance and meets the requirements of the CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government 2016' and the 'Code of Practice for Local Authority Accounting in the UK: A Statement of Recommended Practice', in relation to the Statement on the System of Internal Financial Control.



Scope of responsibility

North Ayrshire IJB is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

The IJB is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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

Purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values by which the IJB is directed and controlled and the activities through which it accounts to and engages with the community. It enables the IJB to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of North Ayrshire IJB's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

Governance framework

The main features of the governance framework that was in place during 2017-18 are summarised below:

- The IJB, comprising all IJB Board members, was the key decision making body. The Performance and Audit Committee considered all matters in relation to Internal and External Audit, Risk Management and Performance
- Strategic decision-making is governed by the IJB's key constitutional documents including the Integration Scheme, standing orders, scheme of administration, scheme of delegation to officers and financial regulations
- The Integration Scheme sets out financial contributions by partners to Integration Joint Boards. This includes the Health Board and Council each considering funding their pay cost pressures and contracted inflation with shared responsibility for demographic cost pressures
- The IJB's purpose and vision are outlined in the IJB Strategic Plan which links closely to the vision of the North Ayrshire Community Planning Partnership and the Local Outcome Improvement Plan (LOIP) and is underpinned by an annual action plan and performance indicators. Regular progress reports on the delivery of the Strategic Plan were provided to the Performance and Audit Committee and the IJB
- The Performance Management Strategy focuses very firmly on embedding a performance management culture throughout the IJB. Regular reporting to Board Members takes place
- A risk management strategy and strategic risk register is in place for the IJB
- A Health and Care Governance Framework was agreed by the IJB on 9 March 2017. This covers governance arrangements in relation to complaints and customer feedback, risk management, health and safety, Internal Audit, workforce planning and public protection
- The IJB has adopted a 'Code of Conduct' for all of its Board Members and employees, a register of interests is in place for all Board members and senior officers
- The IJB has in place a development programme for all Board Members, the Senior Management Team and senior managers across the Partnership. Performance and Personal Development (PPD) schemes are in place for all staff, the aim of which is to focus all staff on their performance and development that contributes towards achieving service objectives
- The IJB has established six locality planning forums, reflecting the previously agreed local planning areas. These provide Board Members, health and social care staff and local community representatives with the opportunity to be involved in considering the priorities for each area
- A Change programme is in place, covering four main themes of building teams around children, developing a wider range of primary care services, supporting older people and people with complex care needs and creating mental health and learning disability services to better support people to stay well. A Change Programme Board, chaired by the Chief Officer and with senior representation from all IJB services as well as third and independent sector partners, has oversight of all the IJB's significant transformation projects

The governance framework was in place during the year ended 31 March 2018.

System of internal financial control

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of these systems is undertaken by NHS Ayrshire and Arran and North Ayrshire Council as part of the operational delivery of the Health and Social Care Partnership. In particular, these systems include:

- Financial regulations and codes of financial practice
- Comprehensive budgeting systems
- Regular reviews of periodic and annual financial reports that indicate financial performance against the forecasts
- Setting targets to measure financial and other performance
- Formal project management disciplines

The IJB's financial management arrangements conform to the governance requirements of the CIPFA statement: 'The Role of the Chief Financial Officer in Local Government (2010)'.

Review of effectiveness

North Ayrshire IJB has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness of the framework is informed by the work of the Senior Management Team who have responsibility for development and maintenance of the governance environment, the annual report by the Chief Internal Auditor and reports from Audit Scotland and other review agencies.

The Chief Internal Auditor reports directly to the IJB Performance and Audit Committee on all audit matters, with the right of access to the Chief Officer, Chief Financial Officer and Chair of the Performance and Audit Committee on any matter. In accordance with the principles of the code of corporate governance, regular reports were made to the IJB's Performance and Audit Committee during 2017–18.

The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal control. During 2017–18, the service operated in accordance with relevant professional audit standards and the Public Sector Internal Audit Standards.

The Chief Internal Auditor is responsible for forming an annual opinion on the adequacy and effectiveness of the systems of internal control.

It is the opinion of the Chief Internal Auditor that the systems of internal control relied upon by the IJB continue to provide reasonable assurance against loss.

Governance developments during 2017–18

Membership of the Integration Joint Board changed following Local Government Elections in May 2017, and due to the resignation of key members.

New appointments were made as follows:

- Chair and Vice Chair, IJB
- Chair and Vice Chair, Performance and Audit Committee
- Chair, Strategic Planning Group
- Chair, Health and Care Governance Group
- Service User and Carer Representative
- Third Sector Representative
- NHS Board Voting Member



New reporting responsibilities were placed on Integration Joint Boards by the Public Bodies (Joint Working) (Scotland) Act 2017, during 2017, including:

- **Complaints handling procedure**
Scottish Public Services Ombudsman Complaints Standard Authority required all IJBs in Scotland to adopt their own model Complaints Handling Procedure.
- **Model publication scheme**
The Freedom of Information (Scotland) Act 2002 (FOISA) requires Scottish public authorities to produce and maintain a publication scheme. North Ayrshire IJB adopted the Model Publication Scheme produced by the Scottish Information Commissioner.
- **Climate change reporting**
Scottish Government issued guidance to Integration Joint Boards in May 2017 setting out the duty to produce an annual Climate Change report. This report will be submitted on the Sustainable Scotland Network (SSN) online portal by 30 November each year. North Ayrshire IJB submitted their report by the deadline of 30 November 2017. North Ayrshire IJB report was published on the Sustainable Scotland Network on 31 January 2018. North Ayrshire Integration Joint Board has no responsibility for employees, buildings or fleet vehicles and therefore the IJB Climate Change report does not include detail of these but instead reference is made to the two respective parent bodies plans as they have retained responsibility for these.

Health and Care Governance

The IJB agreed proposals submitted by the Chair of the Health and Care Governance Group to provide regular updates on clinical and care governance activity for North Ayrshire HSCP.

Annual Performance Report

The IJB endorsed the Annual Performance Report at the meeting in July 2017. This report, highlighted IJB's operations in 2016-17, outlined the good performance of the Health and Social Care Partnership and how it delivered against the strategic priorities and the national outcomes.

Review of Integration Scheme

A report was presented to the NHS Board, East Ayrshire and North Ayrshire Councils in June 2017 seeking approval to consult on and review the Ayrshire Health and Social Care Integration Schemes to explore whether there was a need for change to further improve the delivery of health and social care locally.

The consultation indicated that there is no clear case for changing the Integration Scheme at present. Indeed, there are elements within the existing scheme that have not been fully implemented and there are a number of issues which could be improved upon.

Carer's (Scotland) Act 2016

The Integration Schemes have been amended to reflect the requirements of the Carers (Scotland) Act 2016. The revised Integration Schemes for East Ayrshire, North Ayrshire and South Ayrshire IJBs were submitted to Scottish Government in March 2018 and approved by the Cabinet Secretary on 3 April 2018.

Risk

Risk workshops were held with each service to improve risk management.

Finance

The 2016–17 and 2017–18 overspend will require to be recovered by the IJB and this will be reflected in the updated Medium Term Financial Plan.

The IJB agreed to appoint a full-time Chief Finance and Transformation Officer to assist with the monitoring of financial performance and to drive transformational change in support of the future financial challenge.

Strategic Plan

Work was carried out to refresh the Strategic Plan for the period 2018–2021 and this was approved by the IJB in April 2018.

Clinical and Care Governance

Arrangements in relation to the Health and Care Governance Group were strengthened during 2017–18.

Further actions

The IJB has identified the following actions for 2018–19 that will assist with the further strengthening of corporate governance arrangements:

Records Management Plan

The Public Records (Scotland) Act 2011 came into force in 2013 and states that named authorities are required to prepare a Records Management Plan (RMP) for the management of the authority's records, and to submit the plan to the Keeper of the Records of Scotland for agreement. North Ayrshire Integration Joint Board is a named authority under the Act. The Keeper of Records of Scotland will invite IJBs to submit their RMPs in November 2018, for plans to be in place by March 2019. Arrangements are in place to meet this deadline.

Financial Management

A new financial framework involving enhanced financial reporting and service performance is being implemented to ensure effective financial planning and management alongside robust governance and control measures to deliver services within the financial envelope.

Change and Transformation

The Change Programme Board will establish more robust arrangements to secure delivery of change and transformation at scale and pace.

Assurance

Subject to the above, and on the basis of the assurances provided, we consider the governance and internal control environment operating during 2017–18 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our actions will be identified and actions taken to avoid or mitigate their impact.

Systems are in place to continually review and improve the governance and internal control environment and action plans are in place to address identified areas for improvement.



Stephen Brown
Chief Officer
13 September 2018



Bob Martin
IJB Chair
13 September 2018

Remuneration report

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 explanatory text in the Remuneration Report is reviewed by the external auditor 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 North Ayrshire Council and NHS Ayrshire and Arran. Nomination of the IJB Chair and Vice Chair post holders alternates between a Councillor and a Health Board representative.

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. There were no taxable expenses paid by the IJB. Therefore no remuneration disclosures are provided for the Chair or Vice Chair.

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.

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 adheres 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.

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 remuneration 2016-17 £	Name and post title	Salary, fees and allowances £	Taxable expenses £	Total remuneration 2017-18 £
105,848	Iona Colvin, Chief Officer	0	0	0
0	Stephen Brown, Chief Officer	106,906	0	106,906
4,863	Margaret Hogg, Chief Finance Officer	3,479	0	3,479*

* This relates solely to the post of Chief Finance Officer. Margaret Hogg was remunerated separately by North Ayrshire Council for the post of Head of Finance.

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 pension contributions			Accrued pension benefits	
	Year to 31/3/17 £	Year to 31/3/18 £		Difference from 31/3/17	as at 31/3/18
Iona Colvin, Chief Officer from April 2016 to March 2017	20,429	0	Pension Lump Sum	n/a n/a	0 0
Stephen Brown, Interim Chief Officer from April 2017 to March 2018	0	0	Pension Lump Sum	0 0	0 0
Margaret Hogg, Chief Finance Officer from April 2016 to December 2017	0	0	Pension Lump Sum	n/a n/a	n/a n/a

n/a – both the Chief Officer and Chief Finance Officer were not in post at 31/3/18

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 2016-17	Remuneration band	Number of employees in band 2017-18
1	£105,000-£109,999	1

Exit packages

There were no exit packages during 2017-18.



Stephen Brown
Chief Officer

13 September 2018



Bob Martin
IJB Chair

13 September 2018

Financial statements

The **Comprehensive Income and Expenditure Statement** shows the cost of providing services for the year according to accepted accounting practices.

2016-17				2017-18		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
60,960	0	60,960	Community Care and Health	63,268	0	63,268
25,070	0	25,070	Mental Health	26,730	0	26,730
30,213	0	30,213	Children's Services and Criminal Justice	35,535	0	35,535
47,929	0	47,929	Primary Care	49,518	0	49,518
5,040	0	5,040	Management and Support Costs	5,566	0	5,566
3,284	0	3,284	Change Programme	3,430	0	3,430
70,565	0	70,565	Lead Partnership and Set Aside	76,665	0	76,665
243,061	0	243,061	TOTAL NET EXPENDITURE	260,712	0	260,712
0	(82,382)	(82,382)	North Ayrshire Council Funding	0	(89,346)	(89,346)
0	(157,434)	(157,434)	NHS Ayrshire and Arran Funding	0	(168,804)	(168,804)
0	(239,816)	(239,816)	TOTAL TAXATION AND NON-SPECIFIC GRANT INCOME (note 5)	0	(258,150)	(258,150)
243,061	(239,816)	(3,245)	SURPLUS/(DEFICIT)	260,712	(258,150)	(2,562)

There are no statutory or presentation adjustments which affect the IJB's application of the funding received from partners. The movement in the General Fund balance is therefore solely due to the transactions shown in the Comprehensive Income and Expenditure Statement. Consequently an Expenditure and Funding Analysis is not provided in these annual financial statements.

The **Movement in Reserves Statement** shows the movement in the year on the reserves held by the IJB. The movements which arise due to statutory adjustments which affect the General Fund balance are separately identified from the movements due to accounting practices. In 2017-18 there were no statutory adjustments.

Total Reserves 2016-17	Movement in reserves during 2017-18	General Fund Balance 2017-18	Unusable Reserves 2017-18	Total Reserves 2017-18
0	Opening balance at 31 March 2017	(3,245)	0	(3,245)
	Total Comprehensive Income and Expenditure			
0	Adjustments between accounting basis and funding basis under regulations	0	0	0
(3,245)	Increase or decrease in 2017-18	(2,562)	0	(2,562)
(3,245)	Closing Balance as 31 March 2018	(5,807)	0	(5,807)

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 2017 £000		Notes	31 March 2018 £000
(3,245)	Creditors – due to North Ayrshire Council	6	(5,807)
0	Liabilities		0
(3,245)	Net Assets		(5,807)
(3,245)	Reserves – IJB General Fund		(5,807)
(3,245)	Total Reserves		(5,807)

The Statement of Accounts present a true and fair view of the financial position of the Integration Joint Board as at 31 March 2018 and its income and expenditure for the year then ended.

The unaudited financial statements were authorised for issue on 21 June 2018 and the audited financial statements will be authorised for issue on 13 September 2018.



Caroline Whyte
Section 95 Officer

13 September 2018

Notes to the financial statements

Note 1 – Significant Accounting Policies

General principles

The Financial Statements summarise the authority's transactions for the 2017-18 financial year and its position at the year-end of 31 March 2018.

The North Ayrshire 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 2017-18, supported by International Financial Reporting Standards (IFRS), unless legislation or statutory guidance requires different treatment.

The financial statements are prepared on a going concern basis, which assumes that the IJB will continue in operational existence for the foreseeable future. The 2017-18 annual financial statements reflect a deficit position for the IJB. A medium term financial plan has been developed for the IJB. Plans are in place to recover this deficit in the medium term from 2019/20.

The historical cost convention has been adopted.

Accruals of expenditure and income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. 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.

Funding

The IJB is primarily funded through contributions from the statutory funding partners, North Ayrshire Council and NHS Ayrshire and Arran. Expenditure is incurred as the IJB commissions specified health and social care services from the funding partners for the benefit of service recipients in North Ayrshire.

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. The funding balance due to or from each funding partner as at 31 March is represented as a debtor or creditor on the IJB's Balance Sheet.

Employee Benefits

The IJB does not directly employ staff. Staff are employed by the funding 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. The charges from the employing partner are treated as employee costs.

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 Usable and there are no 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 either use or owe in later years to support service provision.

Indemnity Insurance

The IJB has indemnity insurance for costs relating primarily to potential claim liabilities regarding Board member and officer responsibilities. NHS Ayrshire and Arran and North Ayrshire Council have responsibility for claims in respect of the services that they are statutorily responsible for and that they provide.

Unlike NHS Boards, the IJB does not have any 'shared risk' exposure from participation in CNORIS (Clinical Negligence and Other Risks Indemnity Scheme). The IJB participation in the CNORIS scheme is therefore equivalent 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.

Note 2 – Critical Judgements and Estimation Uncertainty

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

- The IJB has considered its 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 IJB's opinion that a transfer of economic benefits will be required, material contingent liabilities would have been disclosed in a note, however, there are no material contingent liabilities.

The Financial Statements include some estimated figures. Estimates are made taking into account the best available information, however actual results could be materially different from the assumptions and estimates used.

Note 3 – Events after the Reporting Period

The audited annual financial statements will be authorised for issue by the Chief Financial Officer on 13 September 2018. 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 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 4 – Expenditure and Income Analysis by Nature

2016-17 £000's		2017-18 £000's
105,033	Services commissioned from North Ayrshire Council	114,099
138,001	Services commissioned from NHS Ayrshire and Arran	146,589
27	Auditor Fee: External Audit Work	24
(239,816)	Partners Funding Contributions and Non-Specific Grant Income	(258,150)
(3,245)	Deficit on the Provision of Services	(2,562)

Note 5 - Taxation and Non-Specific Grant Income

2016-17 £000's		2017-18 £000's
(82,382)	Funding Contribution from North Ayrshire Council	(89,346)
(157,434)	Funding Contribution from NHS Ayrshire and Arran	(168,804)
(239,816)	Taxation and Non-specific Grant Income	(258,150)

The funding contribution from the NHS Board shown above includes £28.055m (2016-17 £23.406m) in respect of 'set aside' resources relating to acute hospital and other resources. These are provided by the NHS which retains responsibility for managing the costs of providing the services. The IJB however has responsibility for the consumption of, and level of demand placed on, these resources.

There were no other non-ring-fenced grants or contributions.

The funding contributions from the partners shown above exclude any funding which is ring-fenced for the provision of specific services. Such ring-fenced funding is presented as income in the Cost of Services in the Comprehensive Income and Expenditure Statement. In 2017-18 there was no ring-fenced funding.

Note 6 – Creditors

31 March 2017 £000's		31 March 2018 £000's
(3,245)	Funding: due to North Ayrshire Council	(5,807)
(3,245)	Creditors	(5,807)

This represents the amount owed to North Ayrshire Council in relation to cumulative overspends. This will require to be repaid in future years but the schedule has still to be determined.

Note 7 – Usable Reserve: General Fund

The IJB holds a balance on the General Fund for two main purposes:

- To earmark, or build up, funds which are to be used for specific purposes in the future, such as known or predicted future expenditure needs. This supports strategic financial management.
- To provide a contingency fund to cushion the impact of unexpected events or emergencies. This is regarded as a key part of the IJB's risk management framework.

There are no usable reserves as at 31 March 2018 and the table below shows the movements on the General Fund balance which results in a deficit position.

2016-17		2017-18	
Balance at 31 March 2017		Transfers Out 2017-18	Balance at 31 March 2018
(3,245)	General Fund	0	(5,807)

Note 8 – Agency Income and Expenditure

On behalf of all IJBs within the NHS Ayrshire and Arran area, the IJB acts as the lead manager for Mental Health Services and Children's Services. It commissions services on behalf of the other IJBs and reclaims the costs involved. The payments that are made on behalf of the other IJBs, and the consequential reimbursement, are not included in the Comprehensive Income and Expenditure Statement (CIES) since the IJB is not acting as principal in these transactions.

The amount of expenditure and income relating to the agency arrangement is shown below.

2016-17 £000		2017-18 £000
30,574	Expenditure on Agency Service	29,685
(30,574)	Reimbursement for Agency Services	(29,685)
0	Net Agency Expenditure Excluded from the CIES	0

Note 9 – Related party transactions

The IJB has related party relationships with NHS Ayrshire and Arran and North Ayrshire Council. In particular the nature of the partnership means that the IJB may influence, and be influenced by, its partners. The following transactions and balances included in the IJB's financial statements are presented to provide additional information on the relationships.

2016–17 £000	Transactions with NHS Ayrshire and Arran	2017–18 £000
(157,434)	Funding Contributions received from NHS Board	(168,804)
0	Service Income received from NHS Board	0
137,961	Expenditure on Services Provided by NHS Board	146,548
53	Key Management Personnel: Non Voting Board Members	53
0	Support Services	0
(19,420)	Net Transactions with NHS Board	(22,203)

31 March 2017 £000	Balances with NHS Ayrshire and Arran	31 March 2018 £000
0	Debtor Balances: Amounts due from NHS Board	0
0	Creditor Balances: Amounts due to NHS Board	0
0	Net Balances with NHS Board	0

2016–17 £000	Transactions with North Ayrshire Council	2017–18 £000
(82,382)	Funding Contributions received from the Council	(89,346)
0	Service Income received from the Council	0
104,994	Expenditure on Services Provided by the Council	114,058
53	Key Management Personnel: Non Voting Board Members	53
0	Support Services	0
22,665	Net Transactions with the Council	24,765

31 March 2017 £000	Balances with North Ayrshire Council	31 March 2018 £000
0	Debtor Balances: Amounts due from the Council	0
(3,245)	Creditor Balances: Amounts due to the Council	(5,807)
(3,245)	Net Balances with the Council	(5,807)

Key Management Personnel: The non-voting Board members employed by the Council and recharged to the IJB include the Chief Officer; representatives of primary care, nursing and non-primary services; and a staff representative. Details of the remuneration for some specific post-holders is provided in the Remuneration Report.

Support services were not delegated to the Integration Joint Board through the Integration Scheme and are instead provided by NHS Ayrshire and Arran and Council free of charge as a 'service in kind'. The support services provided is mainly comprised of: provision of the Chief Financial Officer, financial management, human resources, legal, committee services, ICT, payroll, internal audit and the provision of the Chief Internal Auditor.

Note 10 – VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

The VAT treatment of expenditure in the IJB's financial statements depends on which of the partner agencies is providing the service as these agencies are treated differently for VAT purposes.

Where the Council is the provider, income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to H.M. Revenue and Customs and all VAT paid is recoverable from it. The Council is not entitled to fully recover VAT paid on a very limited number of items of expenditure and for these items the cost of VAT paid is included within service expenditure to the extent that it is irrecoverable from H.M. Revenue and Customs.

Where the NHS is the provider, expenditure incurred will include irrecoverable VAT as generally the NHS cannot recover VAT paid as input tax and will seek to recover its full cost as Income from the Commissioning IJB.

Note 11 – Accounting standards issued not adopted

The Code requires the disclosure of information about accounting changes that will be required by new accounting standards that are not yet due to be adopted. There are none which are relevant to the IJB financial statements.

Independent auditor's report

Independent auditor's report to the members of North Ayrshire Integration Joint Board and the Accounts Commission

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of North Ayrshire Integration Joint Board for the year ended 31 March 2018 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 2017–18 (the 2017–18 Code).

In our opinion, the accompanying financial statements:

- Give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the North Ayrshire Integration Joint Board as at 31 March 2018 and of its income and expenditure 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 2017/18 Code
- 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 for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of North Ayrshire Integration Joint Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you, where:

- The use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- The Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about North Ayrshire Integration Joint Board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Chief Finance Officer and North Ayrshire Integration Joint Board 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 the 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.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing North Ayrshire Integration Joint Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

North Ayrshire Integration Joint Board is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we 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 our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is

materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

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

In our 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
- 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 we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- Adequate accounting records have not been kept; or
- The financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- We have not received all the information and explanations we require for our audit; or
- There has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Use of our 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, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Pat Kenny
CPFA (for and on behalf of Deloitte LLP)
110 Queen Street, Glasgow, G1 3BX

13 September 2018

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Comments or questions about this document, including request for support information or documentation, should be made to:
North Ayrshire Health and Social Care Partnership,
Cunninghame House, Friars Croft, Irvine KA12 8EE

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NORTH AYRSHIRE

Health and Social Care Partnership



DIRECTOR (North Ayrshire Health & Social Care Partnership): Stephen Brown
5th Floor West Wing, Cunninghame House, Friarscroft, Irvine KA12 8EE

Our Ref: PK/KW/2018

13 September 2018

Deloitte LLP
110 Queen Street
GLASGOW
G1 3BX

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of the North Ayrshire Integration Joint Board (IJB) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the North Ayrshire IJB as of 31 March 2018 and of the results of its operations, other comprehensive net expenditure and its cash flows for the year then ended in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

In addition to the above, this representation letter is provided in connection with your audit of the Management Commentary, Remuneration Report and Annual Governance Statement for the following purposes:

- * Expressing an opinion on the auditable part of the Remuneration Report as to whether it has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- * Expressing an opinion as to whether the information given in the Management Commentary 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
- * Expressing an opinion as to whether the information given in the Annual Governance Statement is consistent with the financial statements and that the report has been prepared in accordance with the Delivering Good Governance in Local Government Framework (2016).

I am aware that it is an offence to mislead a Boards auditor.

As Responsible Financial Officer and on behalf of the Board, I confirm, to the best of my knowledge and belief, the following representations.

Financial statements

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of *IAS24 "Related party disclosures"*.
5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Board or cease trading as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Board's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We confirm that all of the disclosures within the Management Commentary, Remuneration Report and the Annual Governance Statement have been prepared in accordance with the relevant legislation and guidance.

Information provided

9. We have provided you with all relevant information and access.

10. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
11. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We are not aware of any fraud or suspected fraud that affects the entity and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
14. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
15. We are not aware of any instances of non-compliance, or suspected non-compliance, with laws, regulations, and contractual agreements whose effects should be considered when preparing financial statements
16. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
17. No claims in connection with litigation have been or are expected to be received.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Caroline Whyte
Section 95 Officer
North Ayrshire Health and Social Care Partnership

Signed as Responsible Financial Officer, and on behalf of the Board



Final report to the Members of the North Ayrshire IJB and the Controller of Audit on the 2017/18 audit

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Introduction

The key messages in this report

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

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

I have pleasure in presenting our final report to the Integration Joint Board (IJB) for the 2017/18 audit. The scope of our audit was set out within our planning report presented to the Performance and Audit Committee in March 2018.

This report summarises our findings and conclusions in relation to:

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



Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - completeness and accuracy of income; and
 - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We have identified no audit adjustments from our procedures to date.
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the IJB. As highlighted at page 14 we have also found that North Ayrshire IJB accounts are a good example of best practice in line with the Good Practice note for IJBs published by Audit Scotland during the year.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have tested 100% of the journal entries posted through the IJB ledger in the year. No issues were noted from this testing.
- Other insights obtained through our audit work have been collated into an action plan for improvement on pages 34-38.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - finalisation of annual accounts;
 - finalisation of our internal quality control procedures;
 - receipt of signed management representation letter; and
 - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – audit dimensions

The following two pages set out the key messages of this paper in relation to the four audit dimensions:

Financial sustainability

In line with the last three years, the IJB has not achieved short term financial balance and continues to face a significant challenge for 2018/19. Added to the deficit of £3.245m carried forward from 2016/17, the IJB has closed 2017/18 with a cumulative deficit position of £5.807m which needs to be recovered in future years. In the medium term, the IJB is faced with an extremely challenging financial position. In developing its first Medium Term Financial Plan (MTFP) in March 2017, the IJB estimated a cumulative funding gap of £30.8 million over the period 2018/19-2019/20 if no changes were made. The IJB is in the process of refreshing its MTFP to determine the current expected gap taking into account changes since this was initially prepared.

It is positive to note that the IJB plans to review its MTFP and has recently appointed a dedicated Chief Finance and Transformation Officer as the Section 95 for the IJB. It is critical that the IJB identify how services can be transformed and recurring savings can be made to ensure that the IJB can be financially sustainable over the long term.

Operationally, the IJB are performing well as a partnership in several areas. However, increased focus must be given to achieving a financially sustainable position. The IJB needs to consider a fully integrated budget to allow effective resource planning. In addition, the set aside budget needs to be fully integrated into the IJB budget process. It is also important that future funding from the NHS is agreed in advance of the start of the financial year to ensure sufficient lead in time to implement any changes required.

2017/18 final outturn position reported an over spend against budget of **£2.562m (1.12%)**. This had been added to the brought forward deficit.

This final position was achieved following additional funding of £0.971m from the NHS and the use of £1.4m of the Challenge Fund to alleviate in year demand pressures.

At 31 March 2018, the IJB held a cumulative deficit position of **£5.807m in reserves**.

This needs to be recovered in future years, which is extremely challenging.

The **2018/19 budget** is projecting a balanced position. This included £11.766m of pressures and £5.070m of savings. £2.557m of Cash Releasing Efficiency Savings have been carried forward from previous years, £925k of which has been identified and £1.632m is yet to be identified.

The IJB recognise that this is a significant financial risk of not achieving a balanced position at a time of increasing demand for services. In addition, the lack of a confirmed funding position from NHS Ayrshire and Arran at the start of the financial year increases this risk. It is critical that increased focus is given to commissioning services within the funding available.

Introduction (continued)

The key messages in this report – audit dimensions (continued)

Financial Management

In view of the projected funding gap and year end overspend for 2017/18, it is critical that the IJB ensure that the assumptions underpinning the MTFP are reflective of demand, taking into account the funding available and risks faced by the IJB. We note that, through the newly appointed Chief Finance and Transformation Officer, plans are in place to improve the financial governance arrangements in 2018/19. Robust control of expenditure and monitoring will be enhanced via a detailed financial framework allowing early detection and corrective action of adverse variances. We will monitor the effectiveness of this over the coming year through review of how the IJB is working towards financial balance and attendance at the Board.

The IJB relies on the financial systems of both the Council and NHS and no material weaknesses have been identified from our work. We have noted, however, that there is a disparity in the quality and level of detail in the financial information available to the IJB for services commissioned from the Council and NHS, with information available from the Council being of notably higher quality. It is important that clear and consistent information is provided to the Board for the partnership as a whole to allow the Board to perform its governance role effectively.

Governance and transparency

We have reviewed the governance arrangements, the level of scrutiny, challenge and transparency of decision making and the quality and timeliness of financial and performance reporting. The current governance and reporting arrangements for the Lead Partnership arrangements are not as clear as for those areas under the direct control of the IJB. We have therefore recommended that these be reviewed to ensure that complete and consistent information is provided to the Board to allow it to fulfil its governance responsibilities effectively. We note that this has been incorporated into the agreed Internal Audit Plan for 2018/19.

We have also recommended that increased training is provided to IJB members to ensure they fully understand their roles and responsibilities and they are provided with sufficient support in areas where they do not have the required level of knowledge.

We have no concerns around the arrangements with internal audit. We have reviewed the reports issues by internal audit and considered the impact of these on our audit approach.

Value for Money

The Board had a performance management framework in place, with performance regularly considered by management and the Performance and Audit Committee. Reporting is clearly linked to strategic priorities, however, improvements could be made to how the IJB shows that spending makes a difference in these areas. We recognise that this is a national issue.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the four audit dimensions:

- Financial sustainability
- Financial management
- Governance and transparency
- Value for money

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the IJB continues to face significant financial challenges due to an increase in costs whilst facing increased demand for services.

Materiality

The materiality of £3.649m and performance materiality of £2.736m has been based on the benchmark of gross expenditure.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £0.182m.

Scope of the audit

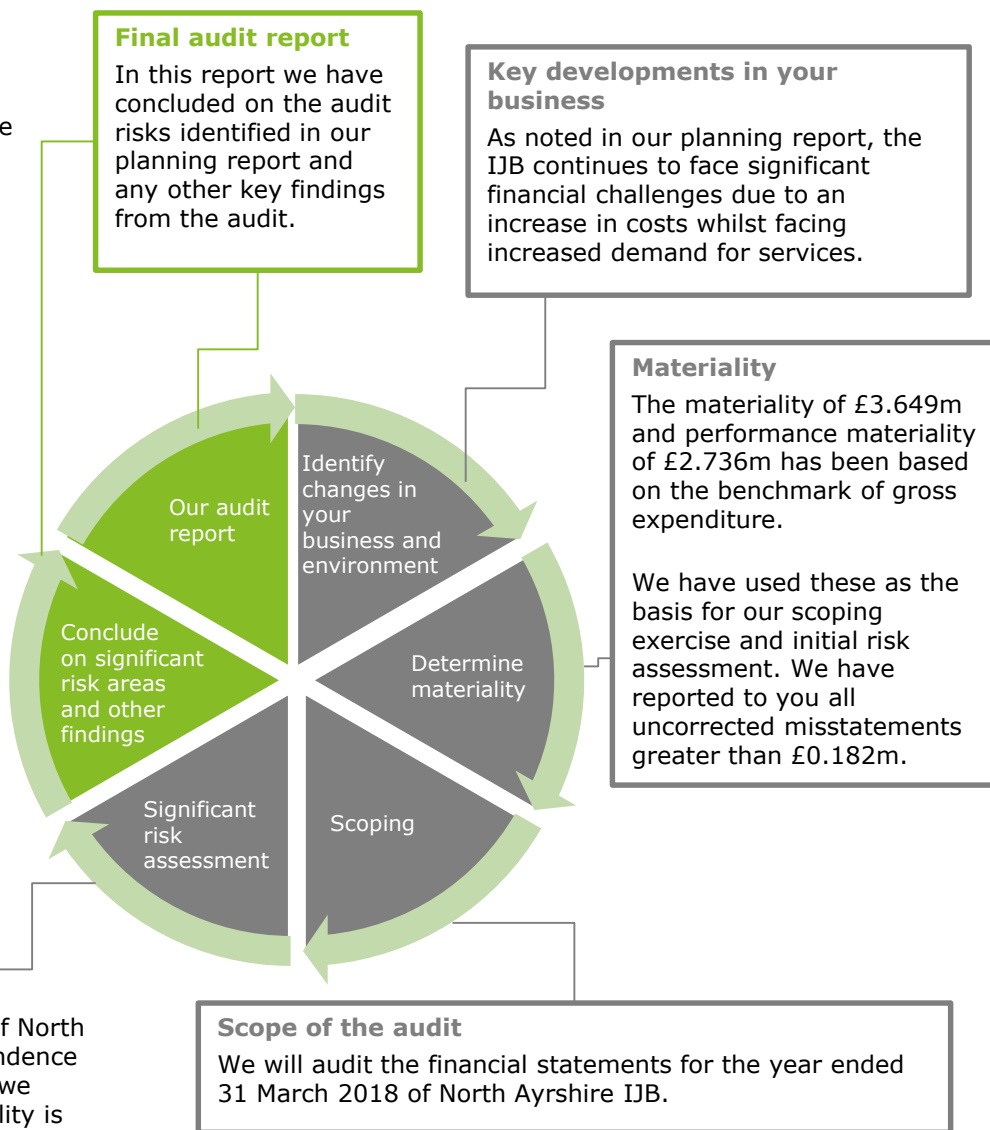
We will audit the financial statements for the year ended 31 March 2018 of North Ayrshire IJB.

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of North Ayrshire IJB. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2017/18

November 2017 – February 2018

Meetings with management and other staff to update understanding of the processes and controls.

8 March 2018

Presented planning paper to the Performance & Audit Committee

March 2018

Year end

June – August 2018

Review of draft accounts, testing of significant risks and performance of substantive testing of results.

13 September 2018







Audited accounts signed and final audit report presented at the Board meeting.

Financial statements audit



Significant risks

Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness and accuracy of income			D+I	Satisfactory		Satisfactory	10
Management override of controls			D+I	Satisfactory		Satisfactory	11

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

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

Significant risks (continued)

Risk 1 – Completeness and accuracy of income

Risk identified

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

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



Key judgements and our challenge of them

Funding available from the funding partners is primarily driven by the approved delegated budgets from each partner, however actual income can vary to budget. Additional income of £0.971m was received from NHS Ayrshire & Arran in the year to fund overspend on NHS commissioned services. The deficit carried forward by the IJB is due to a £3.245m overspend incurred on Council commissioned services in 2016/17 and a £2.562m overspend in 2017/18. We have reconciled actual income to budgeted income from each funding partner and tested any reconciling items.

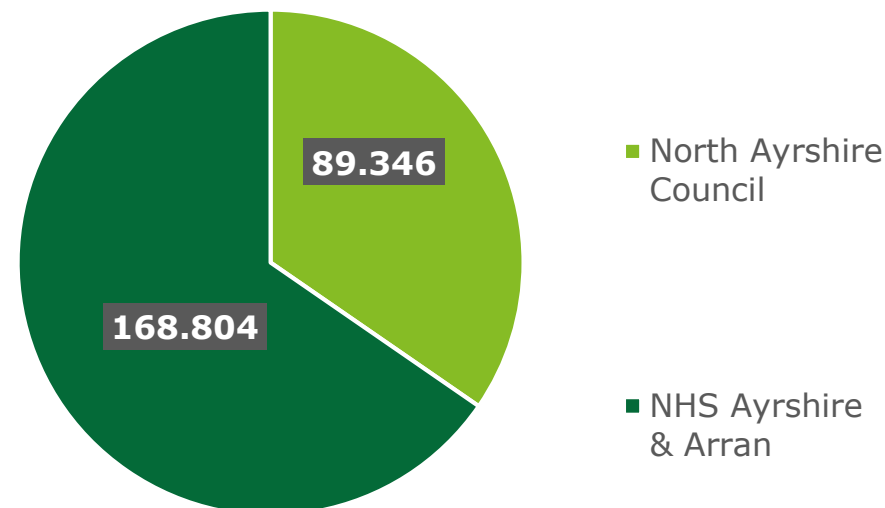


Deloitte response

We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any additions/reductions have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2018 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2017/18 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.

2017/18 Funding (£m)



Deloitte view

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

Significant risks (continued)

Risk 2 - Management override of controls



Risk identified

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

The key judgements in the financial statements are those which we have selected to be the significant audit risks around recognition of income. This is inherently the areas in which management has the potential to use their judgement to influence the financial statements.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

The control environment is appropriate for the size and complexity of the Board.

Deloitte response

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

- the IJB projected to overspend against budget, although this was closely monitored by the Board throughout the year and the Board was open and transparent with its funding partners regarding potential overspend, albeit the corrective action was not delivered; and
- senior management's remuneration is not tied to particular financial results.

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

Significant transactions

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

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We performed design and implementation testing of the controls in place for journal approval. We have tested 100% of the journal entries processed through the IJB ledger during the year with no issues noted.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of the audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

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

While the IJB has ended the year with a cumulative deficit position, the Code of Practice on Local Authority Accounting requires authorities to prepare its financial statements on a going concern basis unless there is an intention by government that the services provided by the authority will no longer be provided.



Emphasis of matter and other matter paragraphs

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

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



Other reporting responsibilities

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

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 13.

Your annual accounts

We welcome this opportunity to set out for the Board our observations on the annual accounts. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the Management Commentary has been prepared in accordance with the statutory guidance.

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The IJB also focuses on the strategic planning context.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance and have included recommendations for clear presentation in the good practice guide in the next page.</p> <p>We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>The good practice note published by Audit Scotland was provided to the IJB for consideration in preparation of the annual accounts. We found from our reviews that the IJB accounts have been prepared in line with the guidance offered per the good practice note, and as a result these accounts are a good example of best practice.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefit and pay bands and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the IJB's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the regulations. No exceptions noted.

Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. A Good Practice note covering IJB's was published in April 2018 from a review of the 2016/17 annual accounts of IJBs and all IJBs were encouraged to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts,

We have provided below some extracts which should be considered by the Board in drafting future annual reports. It should be noted that the findings we have identified for the North Ayrshire IJB accounts were limited as the Good Practice Note has clearly been considered when drafting the accounts. As a result, the IJB's accounts are a good example of best practice in action.

Management commentary

The following areas for improvement were identified when reviewing the Board's annual report and have subsequently been updated for:

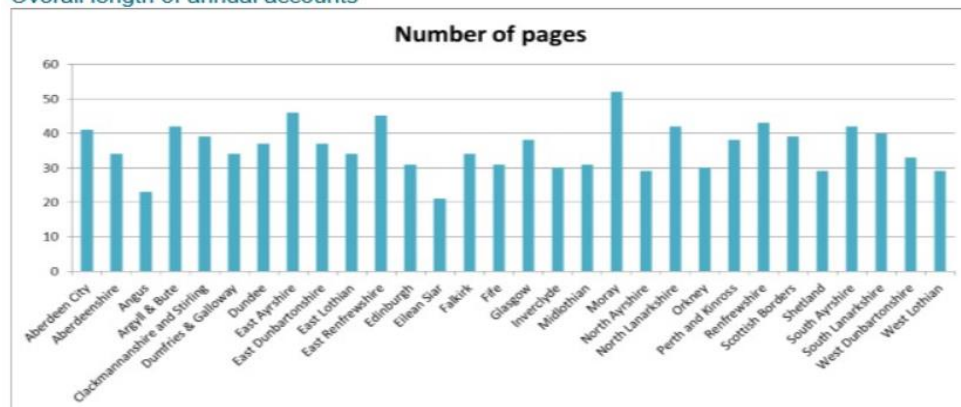
- Additional narrative should be added to give clarity and context with regards to performance indicators where the IJB's performance is 'significantly adrift'; and
- More explicit referencing or signposting with regards to particular areas where readers would likely require additional information e.g. performance indicators, lead partnership agreement.

Governance statement

The following areas for improvement were identified when reviewing the Board's annual report:

- Any actions noted under 'Further Actions' in the prior year accounts should be followed up to clarify what action has been taken during the year in order to address each point.

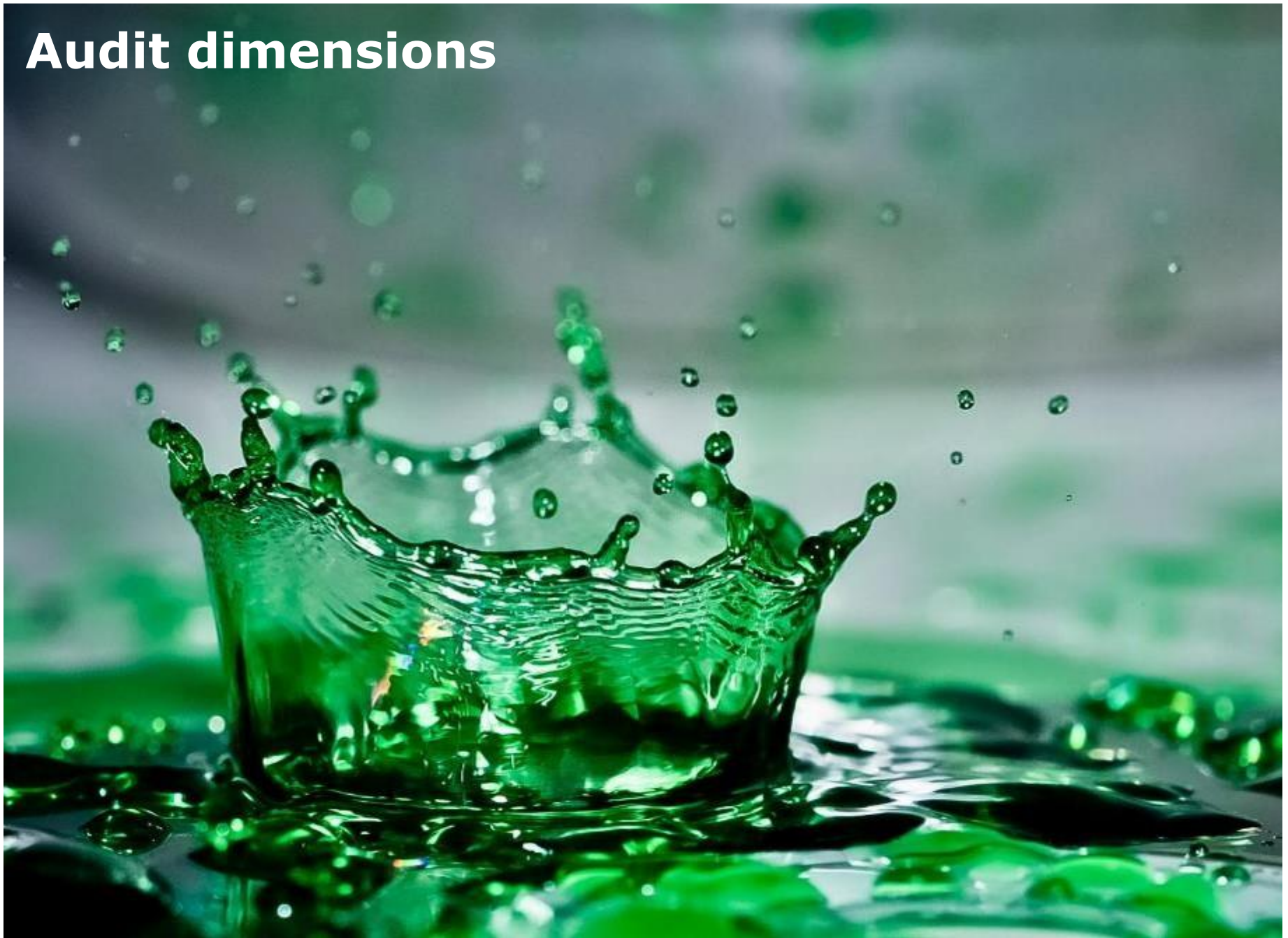
Overall length of annual accounts



From the analysis of the length of all IJB annual accounts for 2016/17, North Ayrshire's annual accounts were of average length.

The IJB should continue to balance the volume and relevance of information provided, whilst considering best practice points discussed above.

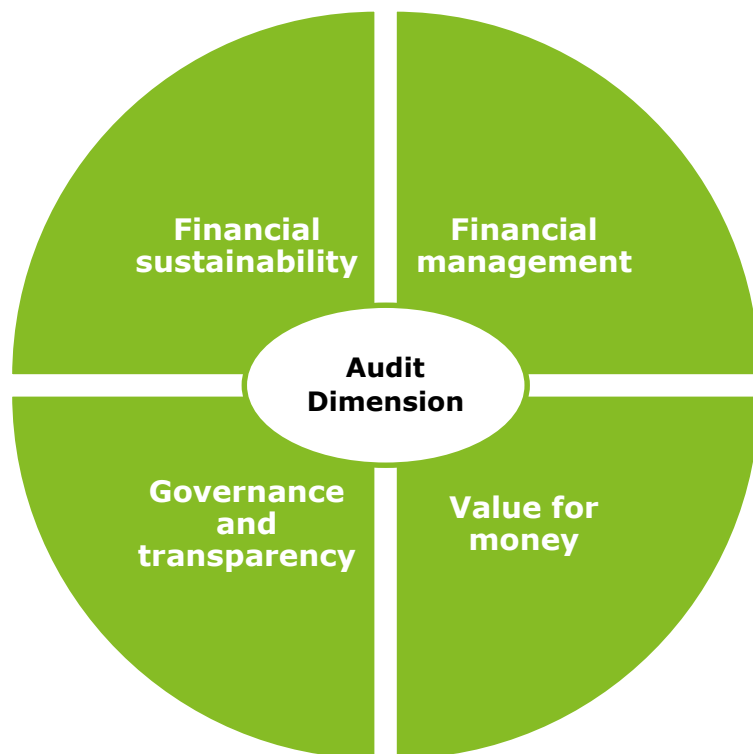
Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. Our report is structured in accordance with the four audit dimensions, but also covers our specific audit requirements on best value and specific risks as summarised below.



Best Value (BV)

It is the duty of the IJB to secure BV as prescribed in the Local Government (Scotland) Act 1973.

We have considered the Board's duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of specific risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

- SR 1** – EU Withdrawal
- SR 2** – New Financial Powers
- SR 3** – Ending public sector pay cap
- SR 4** – Cyber security risk
- SR 5** – Openness and transparency

Audit dimensions (continued)

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

Deloitte response



From our work in 2016/17 we found that the IJB was forecasting considerable annual funding gaps in the short to medium term, with the projected funding gap reaching £39.2m over the period 2017/18-2020/21. Whilst some progress had been made in terms of identifying savings within the Medium Term Financial Plan, and also through the establishment of the Challenge Fund in partnership with the Council, further progress was required in order to achieving sustainable spending in future periods. We have reviewed the progress made by the IJB over the last year within its medium and long term financial plans.

Deloitte view

In line with the last three years, the IJB has not achieved short term financial balance and continues to face a significant challenge for 2018/19. Added to the deficit of £3.245m carried forward from 2016/17, the IJB has closed 2017/18 with a cumulative deficit position of £5.807m which needs to be recovered in future years. In the medium term, the IJB is faced with an extremely challenging financial position. In developing its first Medium Term Financial Plan (MTFP) in March 2017, the IJB estimated a cumulative funding gap of £30.8 million over the period 2018/19-2019/20 if no changes were made. The IJB is in the process of refreshing its MTFP to determine the current expected gap taking into account changes since this was initially prepared.

It is positive to note that the IJB plans to review its MTFP and has recently appointed a dedicated Chief Finance and Transformation Officer as the Section 95 for the IJB. It is critical that the IJB identify how services can be transformed and recurring savings can be made to ensure that the IJB can be financially sustainable over the long term.

Operationally, the IJB are performing well as a partnership in several areas. However, increased focus must be given to achieving a financially sustainable position. The IJB needs to consider a fully integrated budget to allow effective resource planning. In addition, the set aside budget needs to be fully integrated into the IJB budget process. It is also important that future funding from the NHS is agreed in advance of the start of the financial year to ensure sufficient lead in time to implement any changes required.

Audit dimensions (continued)

Financial sustainability (continued)

Short term financial position

For **2017/18**, the IJB approved an initial balanced budget of £227.6m (2016/17: £233.3m). This required savings of £9.8m to be made to deliver a balanced budget. The final position of the IJB was an overspend of £2.562m relating to services commissioned from the Council. This is after additional funding was provided by the NHS (see below) and use of £1.4m of the Challenge Fund to alleviate in year demand pressures. Added to the deficit of £3.245m from 2016/17 results in a deficit carried forward of £5.807m which needs to be recovered in future years.

The Integration Scheme outlines the roles and responsibilities of the partners and the IJB in respect of overspends. In the case of a forecast overspend, a recovery plan should be developed. If it is not successful the partners can consider making interim funds available with the potential repayment in future years.

North Ayrshire Council has confirmed that no additional funding will be made available to fund 2017/18 expenditure on services commissioned from the Council. As such, the IJB will carry forward the overspend as part of the deficit to be repaid to the Council in future periods. NHS Ayrshire and Arran has agreed to provide an additional £971k to offset the overspends in the services commissioned from the NHS.

The Integration Scheme also sets out that whilst Primary Care prescribing budgets are delegated to the IJB, prescribing is managed by NHS Ayrshire and Arran. The NHS has allocated the additional sum of £1.13m to the IJB to bring the Primary Care prescribing budget into balance for 2017/18.

	2017/18 budget (£'000)	2017/18 actual (£'000)	2018/19 draft budget (£'000)
Total expenditure	227,581	232,657	230,991
Total income	(227,581)	(230,095)	(230,991)
Set Aside Budget		28,055	28,055
Set Aside Funding		(28,055)	(28,055)
Total Expenditure		260,712	259,046
Total Income		(258,150)	(259,046)

At present, the IJB budget is still monitored against "NAC" and "NHS A&A" managed budgets, rather than a genuine pooled budget for the IJB as a whole. The IJB needs to consider a fully integrated budget to allow effective resource planning. In addition, the set aside budget is not fully integrated into the IJB budget process. In 2017/18, the North Ayrshire share of the set aside resource was £28.055m, however, due to recurring budget pressures as a consequence of increased activity within institutional settings, no element of the set aside resource has been released to facilitate the movement in the balance of care towards community based services. As is the case across Scotland, the IJB should continue to work to resolve funding issues around shifting the balance of care between institutions and communities.

The IJB recognise that there is a significant financial risk of not achieving a balanced position at a time of increasing demand for services. In addition, the lack of a confirmed funding position from NHS Ayrshire and Arran at the start of the financial year increases this risk. It is critical that the IJB has confirmed funding in advance of the start of the year and has savings plans agreed early to ensure that it has sufficient lead in time to implement any changes required. It is critical that increased focus is given to commissioning services within the funding available.

Audit dimensions (continued)

Financial sustainability (continued)

Short term financial position (continued)

An indicative balanced budget for **2018/19** was reported to the IJB in April 2018, however, was not finalised as NHS Ayrshire and Arran had yet to confirm its delegated budget. A final balanced budget of £259.046m (inclusive of the estimated set aside budget of £28.055m) was approved in August 2018. This assumes that the repayment on the carried forward deficit will not commence until 2019/20.

The balanced budget is net of pressures and savings, as summarised below:

	Cost and Demand Pressures (£'000)	Savings (£'000)
Health and Community Care Services	1,290	1,097
Mental Health Services	1,351	484
Children and Justice Services	2,774	704
System wide and across Services	3,150	1,718
Prescribing	3,201	1,067
Total	11,766	5,070

The balanced budget does not include planning to address the previously carried forward Cash Releasing Efficiency Savings (CRES) target from 2016/17 and 2017/18. The CRES savings not achieved in the prior years total £2.557m and this has been carried forward into 2018/19. To date £925k savings have been identified, therefore the balance of £1.632m poses a significant financial risk. It is critical that the IJB work with the NHS to identify appropriate savings.

Reserves

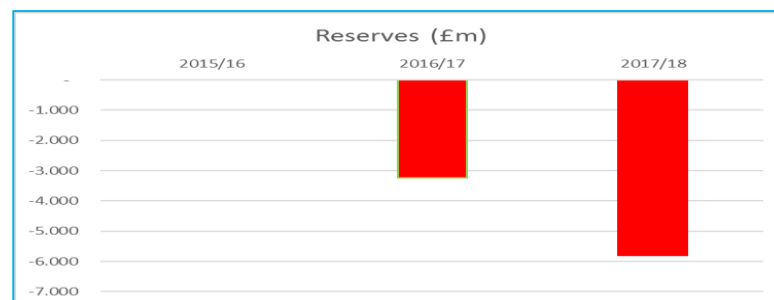
While the IJB has the powers to hold statutory usable reserves, North Ayrshire Council currently does not hold any. Due to the overspends in the last two years, the IJB has ended the year with a negative reserves position of £5.807m which will need to be recovered in future years.

In recognition of the financial challenges facing health and social care services and the imperative to implement radical change, North Ayrshire Council approved the establishment of a '**Challenge Fund**' of £4m. This is an 'invest to change' programme which is an innovative approach in Scotland and has attracted attention of the Scottish Government.

The Challenge Fund created an opportunity for services, using a change approach, to realise both the required North Ayrshire Council savings and additional savings which could be re-invested in their newly designed service to support future sustainability.

However, during 2017/18, the IJB approved the use of £1.4m of the Challenge Fund to alleviate in year cost pressures. £0.977m was allocated to care home placements and £0.423m to learning disability care packages leaving £2.6m for Challenge Fund projects.

Whilst a number of the projects in phase 1 are on track and delivering the transformation and savings anticipated, a number of them have not happened in the timelines planned or realised the amounts envisaged. This is an area of focus for the IJB during 2018/19 to ensure that phase 1 projects are delivered and phase 2 is developed.



Audit dimensions (continued)

Financial sustainability (continued)

Medium to long term financial sustainability

The IJB recognise that the delivery of services in the same way is neither financially or operationally sustainable. The updated strategic plan, approved for 2018-2021, is underpinned by the need to transform care models to find new solutions as the partnership might not always be the first source of support.

In developing its first Medium Term Financial Plan in March 2017, the IJB estimated a cumulative funding gap of £30.8 million over the period 2018/19-2019/20 if no changes were made. The IJB is in the process of refreshing its MTFP to determine the current expected gap taking into account changes since this was initially prepared.

Given the carried forward deficit position of £5.807m, this is extremely challenging and it is critical that the IJB consider how services are going to look in the future. We understand that the Medium Term Financial Plan is being refreshed and will be a key to supporting the delivery of the strategic plan. This needs to include scenario planning to determine a “worst case” and “best case” scenario based on assumptions on funding and demand for services.

Following the approval of the new Strategic Plan for 2018-2021, the priorities and actions identified in the plan have been reviewed to identify the key transformational change priorities for 2018/19 which were set out in the approved budget reported to the Board in August 2018.

Given the extremely challenging financial position, it is critical that these transformational plans start to shift care from an institutional setting to a community setting within the resources available. Given the level of change required, the Board also needs to consider the supporting infrastructure required to deliver on transformation such as:

- Its change management approach;
- Tools and templates to assess whether intended benefits of change have been achieved; and
- Whether it requires external specialist support for any aspects of its Plan.

Best Practice examples

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on six key requirements, which are discussed further on page 28. The overarching aspect throughout a transformation programme is having strong leadership that believes in, and can drive, transformational change.

We would encourage the IJB to consider best practice from other similar entities to help develop its sustainable plans. We would be happy to share examples from our work across the country.

Audit dimensions (continued)

Financial management

Audit dimension

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

Areas considered



- Budgetary control system.
- Systems of internal control.
- Financial capacity and skills.
- Arrangements for the prevention and detection of fraud.

Deloitte response



We have reviewed the budget and monitoring reporting to the Board during the year to assess whether financial management and budget setting is effective. From our audit work in 2016/17 we concluded that in view of the funding gaps in 2016/17 and 2017/18, the IJB needed to ensure that the assumptions underpinning the MTFP are reflective of demand, taking into account the funding available. We also recommended that the IJB should review the effectiveness of its operational budget management in order to secure the delivery of services within the budget set.

We have also assessed the capacity of the finance team in view of the departure of the Chief Finance Officer in December 2017, the subsequent interim appointment of a Head of Finance for the Council commissioned services of the IJB and the permanent appointment of the Chief Finance and Transformation Officer in July 2018.

Our fraud responsibilities and representations are detailed on pages 39.

The final outturn for 2017-18 was an in-year overspend of £3.533m, compared to the budget. The NHS has agreed to increase funding by £971k to bring their element within budget, resulting in a final overspend of £2.562m.

As discussed further on page 18, this was achieved following additional funding of £1.4m from the Challenge Fund to alleviate in year demand pressures and £1.13m investment from the NHS for additional prescribing costs.

Deloitte view

In view of the projected funding gap and year end overspend for 2017/18, it is critical that the IJB ensure that the assumptions underpinning the MTFP are reflective of demand, taking into account the funding available. We note that, through the newly appointed Chief Finance and Transformation Officer, who is the appointed Section 95 Officer for the IJB, plans are in place to improve the financial governance arrangements in 2018/19. Robust control of expenditure and monitoring will be enhanced via a detailed financial framework allowing early detection and corrective action of adverse variances. We will monitor the effectiveness of this over the coming year through review of how the IJB is working towards financial balance.

The IJB relies on the financial systems of both the Council and NHS and no material weaknesses have been identified from our work. We have noted, however, that there is a disparity in the quality and level of detail in the financial information available to the IJB for services commissioned from the Council and NHS, with information available from the Council being of notably higher quality. It is important that clear and consistent information is provided to the Board for the partnership as a whole to allow the Board to perform its governance role effectively.

Audit dimensions (continued)

Financial management (continued)

Budgetary control systems

As reported in our 2016/17 report, and in view of the year end overspend for 2017/18 and the projected cumulative overspend, it is critical that the IJB ensure that the assumptions underpinning the MTFP are reflective of demand, taking into account the funding available. The IJB should also ensure effective governance and management arrangements are in place to allow delivery of services within the budget set. We note that management plan to improve the financial governance arrangements in 2018/19 to ensure robust control of expenditure and monitoring will be enhanced via a detailed financial framework allowing early detection and corrective action of adverse variances. We will monitor the effectiveness of this over the coming year.

Up to December 2017, the finance team was led by the Chief Finance Officer who also had the role of Head of Finance with North Ayrshire Council. Following the departure of the Head of Finance, the IJB approved the position of a dedicated Chief Finance and Transformation Officer for the partnership (who is the appointed Section 95 Officer), recognising the importance of the role. This post was filled on an interim basis and a permanent appointment has recently been made.

From discussion with a sample of Board members, we note that concerns have been raised around the disparity between the financial information provided to them for Council commissioned services and NHS commissioned services. In particular, we have found that information available to the Board by the Council has been of notably higher quality than that provided by the NHS. It is important that clear and consistent information is available to the Board for the IJB as a whole to allow the Board to perform its governance role effectively.

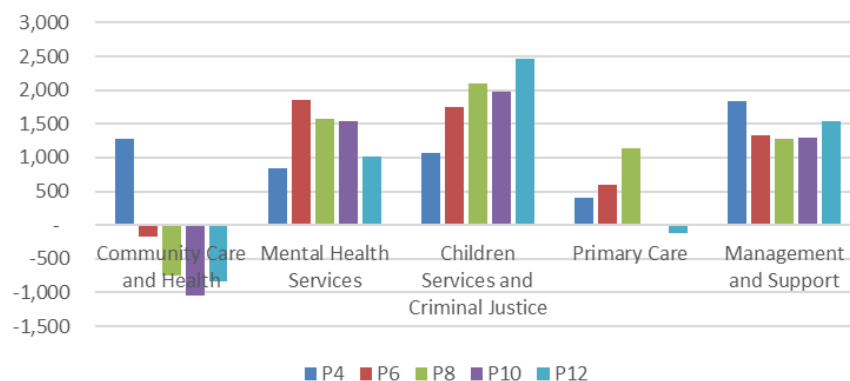
Financial performance

Variances were reported to the IJB throughout the year, with a final report being presented on 21 June 2018. The overall variance is a combination of under and overspends on expenditure. The final position reported a total overspend of £3.533m, however, this was offset by additional funding of £0.971m, resulting in a final overspend

of £2.562m. The expenditure variances can be analysed further as follows:

- **Health and Community Care** – final underspend of £0.829m against budget. Locality Services underspent by £0.398m due to additional income of £0.378m, a planned underspend of £0.2m in equipment agreed as part of mitigating plans, offset by an overspend of £0.3m in care home placements due to additional pressures on respite beds. Community Care Service Delivery also underspent by £0.504m, largely from an underspend of £0.927m due to agreed mitigation to delay the recruitment of posts.
- **Mental Health Services** – final overspend of £1.011m against budget, mainly due to care packages.
- **Children's Services and Criminal Justice** – final overspend of £2.461m. This is largely as a result of an overspend in residential schools and community placements.
- **Management and Support Costs** – final overspend of £1.532m. This mainly relates to NHS savings targets which have still to be agreed.

Projected over/(under) by Service during 2017/18
(£000)



Audit dimensions (continued)

Financial management (continued)

Systems of internal financial control

We have evaluated the IJB's key financial systems and internal control to determine whether they are adequate to prevent misstatements in the annual accounts. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

As auditors of both the Council and Health Board, we have also obtained assurance from our work undertaken as part of these audits regarding the systems and internal controls used to produce the transactions and balances recorded in the IJBs financial statements.

No material weaknesses have been identified from our audit work performed.

Fraud and irregularity

We have reviewed the IJBs arrangements for the prevention and detection of fraud and irregularities. Overall we found the arrangements, which are closely linked to the arrangements in place at each partner bodies, to be operating effectively.

Audit dimensions (continued)

Governance and transparency

Audit dimension

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

Areas considered



- Governance arrangements.
- Performance & Audit Committee.
- Scrutiny, challenge and transparency on decision making and financial and performance reports.
- Quality and timeliness of financial and performance reporting.
- Accountable officers' duty to secure Best Value.

Deloitte response



We have reviewed the financial and performance reporting to the IJB during the year as well as minutes of all IJB and Performance and Audit Committee meetings to assess the effectiveness of the governance arrangements. Our attendance at Performance and Audit Committees has also informed our work in this area.

Deloitte view

We have reviewed the governance arrangements, the level of scrutiny, challenge and transparency of decision making and the quality and timeliness of financial and performance reporting. The current governance and reporting arrangements for the Lead Partnership arrangements is not as clear as for those areas under the direct control of the IJB. We have therefore recommended that these be reviewed to ensure that complete and consistent information is provided to the Board to allow it to fulfil its governance responsibilities effectively.

We have also recommended that increased training is provided to IJB members to ensure they fully understand their roles and responsibilities and they are provided with sufficient support in areas where they don't have the required level of knowledge.

We noted that the June 2018 Performance and Audit Committee was unable to go ahead due to insufficient members of the Committee in attendance to constitute a quorum. It is important the IJB ensures that the Committee has sufficient capacity to allow it to operate effectively.

We have no concerns around the arrangements with internal audit. We have reviewed the reports issues by internal audit and considered the impact of these on our audit approach.

Audit dimensions (continued)

Governance and transparency (continued)

Leadership and vision

Vision: All people who live in North Ayrshire are able to have a safe, healthy and active life.

The IJB updated its Strategic Plan and published the 2018-21 plan in 2017/18. This built on the progress that had been made to date and lays out the key strategic priorities over the next three years. The Plan recognises that integration is still in its infancy and there is much to do in order to create services that will support the people of North Ayrshire.

Decision making is transparent and subject to both scrutiny and challenge. However, the agenda and papers for the Performance and Audit Committee are not publicly available on the IJB's website and only minutes are available. We understand that this is due to a decision at the time of setting up the Committee as a result of the availability of some performance data. We recommend that this is reviewed to establish if some of the papers could be made available online to improve transparency.

The voting membership for the Board comprises four elected members from the NAC and four non-executive directors from the NHS. As a result of the local government elections in May 2017, there have been some changes to the IJB membership in the year. We consider there to be sufficient diversity to provide effective balance and scrutiny in leadership. However, given the recent cancellation of the Performance and Audit Committee due to not being quorate, the IJB needs to ensure that the Committee has sufficient capacity to allow it to operate effectively.

From meeting with a sample of members, we noted some concern that members who have no previous healthcare or council experience may find the reports difficult to understand. In addition, we noted from discussion a general lack of understanding from some IJB members of their roles and responsibilities. We have therefore recommended that appropriate training be provided for members.

From these meetings, concern was also expressed about the governance and reporting arrangements for those areas that were being led by one of the other Ayrshire IJBs or NHS Ayrshire and Arran as part of the Leadership arrangement. We noted that the level of detail provided to the Board is not equivalent to the areas under their direct control. We therefore recommend that the reporting arrangements are reviewed to ensure that complete and consistent information is provided to Board members to allow them to fulfil their governance responsibilities effectively.

Internal Audit

North Ayrshire Council's Chief Internal Auditor provides the Internal Audit function for North Ayrshire IJB. Internal Audit concluded that reasonable assurance can be placed upon the adequacy and effectiveness of the framework of governance, risk management and control in the year to 31 March 2018. The objectives of internal control have been substantially met.

We have performed a review of the Internal Audit Annual Report 2017/18 in order to inform our work. However, in line with Deloitte's established arrangements, we have not placed any specific reliance on the work performed by internal audit.

On the basis of the audit work undertaken during the year, the Chief Internal Auditor is able to conclude that reasonable assurance can be placed upon the IJB's overall adequacy and effectiveness of the organisation's framework of governance, risk management and control in the year to 31 March 2018.

Audit dimensions (continued)

Value for money

Audit dimension

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



Areas considered

- Value for money in the use of resources.
- Link between money spent and outputs and the outcomes delivered.
- Improvement of outcomes.
- Focus on and pace of improvement.

Deloitte response



From our 2016/17 audit work we concluded that the performance management framework put in place by the IJB was integral to delivery of quality and effective management, governance and accountability.

During 2017/18 we have reviewed how the IJB is addressing areas where targets are not being met, and also how the implementation of strategic change is impacting on how the IJB's performance is measured and reported.

Deloitte view

The Board had a performance management framework in place, with performance regularly considered by management, and the Board. Reporting is clearly linked to strategic priorities, however, improvements could be made to how the IJB shows that spending makes a difference in these areas.

We are satisfied that the performance is appropriately discussed within the Management Commentary in the Annual Accounts and management have introduced plans to address areas where progress has not been satisfactory.

Audit dimensions (continued)

Value for money (continued)

Performance Management

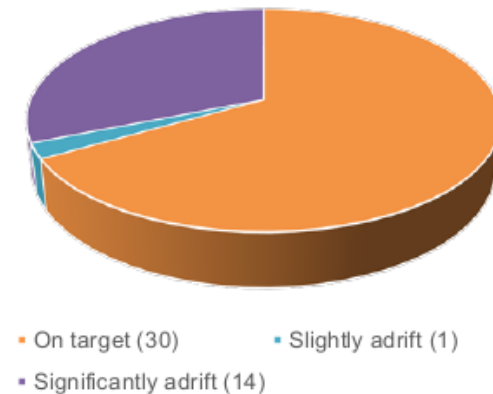
The IJB has embedded a performance management culture throughout the Partnership. It has created a wider range of performance information to manage services and target improvements for the people of North Ayrshire. This is supported by its performance management systems which analyse data, track progress and identify actions.

Regular performance information is provided to the Performance and Audit Committee, IJB members, operational managers and is publicly reported. Benchmarking is used to compare performance with other organisations to support change and improvement.

Reporting is clearly linked to strategic priorities, however, improvements could be made to how the IJB shows that spending makes a difference in these areas. We recognise that this is a national issue.

The Annual Performance Report will be published in August 2018. The following summary is included in the Annual Report and Accounts based on the latest Joint Review Report (October 2017-March 2018) showing the progress of the 45 measurable performance indicators:

Progress of 45 performance indicators

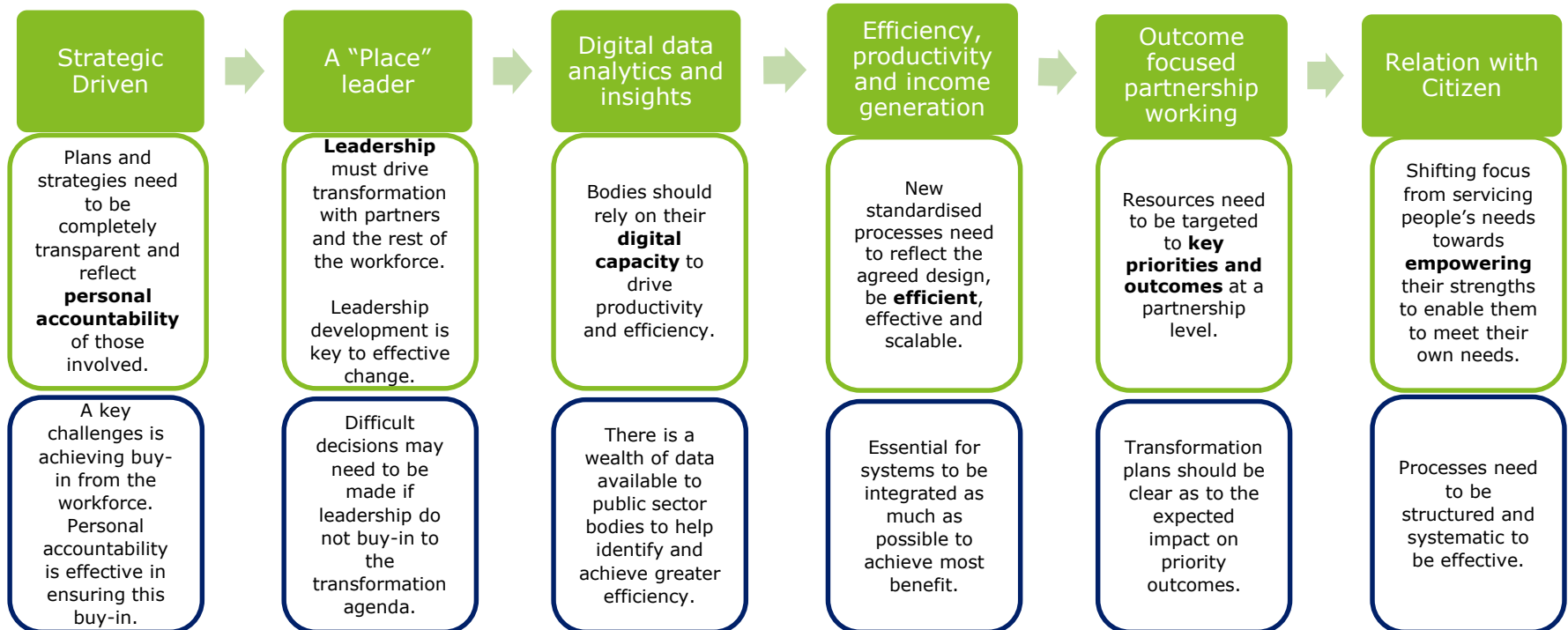


Audit dimensions (continued)

Sharing best practice

In our 2016/17 annual report, we provided the Board with some case study data where Deloitte has been involved in cost reduction work with a number of NHS bodies in England. We recommended that the Board reviews these case studies and considers them as opportunities for improvement going forward as potential areas for cost reduction.

From our experience, public sector bodies that have successfully delivered and sustained transformational change have tended to focus on the following six key requirements. The overarching aspect throughout a transformation programme is having strong leadership that believes in and can drive transformational change.



Audit dimensions (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>The uncertainty around the EU withdrawal has been recognised in the IJBs MTFP and is also being considered by the Council and NHS. NHS Ayrshire & Arran is taking part in a national exercise with the Scottish Government's health workforce directorate to assess the potential impact on the workforce. The Council is much less reliant on EU nationals, but the services commissioned from external providers could be impacted. It should continue to monitor any potential impact as the details develop.</p> <p>Funding and regulation of the IJB is devolved to the Scottish Government and EU withdrawal is not expected to have major impacts in these areas.</p>
New financial powers	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The IJB should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>

Audit dimensions (continued)

Specific risks (continued)

Risk identified	Response
Ending public sector pay cap	<p>The 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018.</p> <p>It has been agreed by Scottish Government that any additional costs of the pay increase in excess of 1% will be met by central funding for the NHS, whilst there is no confirmation that the Scottish Government will meet the additional cost for the Council.</p>
Cyber security risk	<p>The IJB do not have a specific cyber security policy in place as they use the ITC strategy of both the NHS Ayrshire & Arran and North Ayrshire Council.</p> <p>Both the NHS and Council have passed the Scottish Government's Cyber Essentials Pre-assessment which contained some remedial actions which are common across all boards. The approach to cyber security for both NHS Ayrshire & Arran and North Ayrshire Council has been assessed as part of their respective audits – we have found that both bodies have capable and qualified digital security functions in place to combat security threats.</p>
Openness and transparency	<p>From our audit work, we are satisfied that the IJB is appropriately open and transparent in its operations and decision making.</p> <p>The IJB follow the council's guidance and very little is held back. All meetings are public, and therefore minutes and agendas are available online. We have recommended that the IJB consider making the Performance and Audit Committee papers available on line to increase transparency. As discussed further on page 24, there is, however, scope for improvements in the level of detail reported in relation to areas where the IJB is not the Lead Partner and the consistency of information for both NHS and Council commissioned services should be reviewed.</p>

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

The scope of our work

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

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

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



Pat Kenny, CPFA

for and on behalf of Deloitte LLP
Glasgow

4 September 2018

Audit adjustments

Corrected misstatements

- No corrected misstatements have been identified from our audit work performed.

Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable the Board to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Board if anything arises from any outstanding work before the financial statements are signed.

Action plan

Follow up of 2016/17 recommendations

Area	Recommendation	Management response	Responsible person	Target date	Priority	2017/18 update
Budgeting Process	The Board should ensure that when the Medium Term Financial Plan is updated, that the assumptions which underpin the budget are reflective of demand, taking into account the funding available to deliver services.	The Medium Term Financial Plan is being updated to cover 2018-19 to 2020/21. All assumptions will be reviewed as part of this refresh.	Chief Financial Officer	31 March 2018	High	<p>As part of 2017/18 recommendations (see page 35) we have recommended the following in relation to the Medium Term Financial Plan:-</p> <ul style="list-style-type: none"> • Scenario planning should be performed to assess the funding gap when key assumptions are adjusted. • Further savings plans are identified in order to reduce the projected funding gap. <p><i>Not implemented.</i></p>
Financial Management	The Board should assess the effectiveness of operational budget management to secure delivery of services within the budget which has been set.	A review of operational budget management will be undertaken focused on high risk areas and the outcome will be reported to the Performance & Audit Committee.	Chief Financial Officer	31 March 2018	High	<p>The HSCP carried out an internal review of budget management arrangements and the outcome of this was reported to the PAC. From this recommendations and actions were identified including additional support and training, guidance, communication and delegation and approval. Actions have been taken forward to reinforce operational budget management arrangements.</p> <p><i>Implemented however see additional financial management recommendation on page 35.</i></p>

Action plan (continued)

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Management	The Board should ensure effective governance and management arrangements are in place to ensure services can be delivered from within the available budget (see page 22).	Delivery of the transformational change and service re-design programme is key to delivering financial balance and also future sustainability. Arrangements are being reviewed in relation to governance, monitoring, investment and project management support to align all these to support delivery.	Chief Finance and Transformation Officer	September 2018	High
Medium Term Financial Plan	<p>The Medium Term Financial Plan (MTFP) should be refreshed to determine the current expected funding gap. As part of this plan, we would expect it to include:</p> <ul style="list-style-type: none"> • Scenario planning to assess the funding gap when key assumptions are adjusted. • Detailed savings plans are identified in order to reduce the projected funding gap. • A fully integrated budget to allow effective resource planning. • Integration of the set aside budget 	<p>Budget outlook to be presented to the IJB to inform planning for 2019-20 to 2021-22. Medium Term Financial Plan for the same period will be presented to IJB to align the resources available with the service change required to deliver services within the available budget.</p> <p>The integration of set-aside will require to be taken forward separately pan-Ayrshire with the support of the Health Board.</p>	Chief Finance and Transformation Officer	March 2019	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Planning	The Board should have confirmed funding from the NHS in advance of the start of the year to ensure that it has sufficient lead time to implement any changes required (see page 18).	<p>This issue is not unique to North Ayrshire and has been subject to discussion between the Scottish Government and the IJB Chief Finance Officers Group where it is recognised that the timescale for confirmation of Scottish Government grant funding to NHS Boards is detrimental to the ambition for IJBs to set a balanced budget by 31 March.</p> <p>The IJB will be presented with a budget outlook which will include scenario planning in relation to Health funding for future years, this would support the IJB to take decisions in advance of funding confirmation. However, clarity re funding would support the IJB to have confidence re decision making.</p>	NHS Board Director of Finance / Chief Finance and Transformation Officer	March 2019	High
Strategic/ Transformational Planning	<p>There should be a clear link between the Board's Strategic Plan and the MTFP to demonstrate what transformational work is to be carried out to achieve long term financial sustainability. A corporate workforce plan needs to be integral to this strategy.</p> <p>A change management programme should then be put in place, with appropriate tools and templates to allow the IJB to demonstrate that the benefits are being achieved.</p>	<p>Service change will be aligned with the delivery of Strategic Plan outcomes as part of the development of the MTFP for 2019-22.</p> <p>An approach to workforce planning is emerging, building on the work that the Council and NHS are undertaking, acknowledge that an integrated workforce plan should be developed alongside, however this is likely to take longer to develop.</p> <p>A consistent approach to project and change management is in place and Transformation Board recently established to ensure governance and accountability.</p>	Chief Finance and Transformation Officer	March 2019 (integrated workforce plan TBC)	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance and Reporting Arrangements	For those areas led by one of the other IJBs or NHS Ayrshire & Arran, the level of detail provided to the Board is not equivalent to the areas under their direct control. We therefore recommend that the reporting arrangements are reviewed to ensure that complete and consistent information is provided to Board members to allow them to fulfil their governance responsibilities effectively (see page 25).	<p>This issue was recognised in the review of the Integration Scheme carried out in 2017. It has been agreed across Ayrshire by the 3 IJBs that the use of "Directions" for commissioning services could be improved. Information is shared between the 3 partnerships re financial performance of lead arrangements and the risks are noted, however there is further clarity required in relation to the risk sharing. For 2017-18 overspends in lead services were balanced by non-recurring funding by NHS A&A. Further work is required to clarify and formalise risk sharing arrangements from 2018-19 onwards.</p> <p>Work is planned to be taken forward through the Ayrshire Finance Leads group which meets on a monthly basis. Joint work is also being undertaken by Ayrshire Finance Leads / Ayrshire Planning Leads to refine 'fair share' charging methodology for lead partnership services. The in-year financial position will be reported to the IJB through the financial monitoring reports. In addition the North Ayrshire IJB Internal Audit Plan includes a review of the governance for Lead Partnership arrangements, the outcome of this will be reported to the PAC.</p>	IJB Chief Officer, Chief Finance & Transformation Officer, Ayrshire Finance Leads Group	March 2019	Medium
Experience of Members	There is concern that members who have no previous healthcare or council experience may find internal reports difficult to understand. In addition, we noted a general lack of understanding from some IJB members of their roles and responsibilities. We therefore recommend that appropriate training be provided for members (see page 25).	Development sessions have been held with IJB members to support new IJB members, however it is acknowledged that this needs to be revisited and a programme of continuous learning and development requires to be developed.	Chief Officer	December 2018	Medium

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Openness and Transparency	Whilst decision making is transparent and subject to scrutiny and challenge, we recommend that the IJB consider how performance information could be made more publicly available on the IJB's website. This would improve levels of openness and transparency (see page 25).	The Annual Performance Report is published each year. The Performance and Audit Committee receive quarterly reports on performance, however these are not publicly available as the Performance and Audit Committee papers are not published. The IJB are not currently able to publish these due to NHS information which is not currently in the public domain. Consideration will be given to elements of the performance and audit information which could be more openly shared and published to further support an approach to openness and transparency.	Chief Officer / Chief Finance & Transformation Officer	December 2018	Low

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

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



Required representations:

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

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



Audit work performed:

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

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

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

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

Deloitte view:

From our year-end audit procedures and discussions with management, we have noted no cause for concern around the fraud arrangements in place.



Independence and fees

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

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2017/18 is £24,000 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>



Events and publications

Our publications and insights to support the IJB

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

Accelerating health and care integration

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation **Five lessons from the private sector**

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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