



Perth and Kinross Integration Joint Board

Annual Audit Report to the Members of Perth and Kinross Integration Joint Board and the Controller of Audit
for the year ended 31 March 2018

20 September 2018

DRAFT

Contents

	Page
Executive summary	3
Scope and responsibilities	4
Financial statements and accounting	5
Wider scope and Best Value	14
Appendices	22

About this report

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

This report is for the benefit of Perth and Kinross Integration Joint Board ("IJB") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone. Nothing in this report constitutes an opinion on a valuation or legal advice.

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

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

Complaints

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

Executive summary

Audit conclusions

Page 8

We intend to issue an unqualified audit opinion on the annual accounts of Perth and Kinross Integration Joint Board ("the IJB") following their approval by the IJB on 18 September 2018.

We identified two significant risks in the audit of IJB, which are fraud risk from management override of controls and fraud risk from income revenue recognition, (which was rebutted). As documented on pages 10 and 11, we have concluded satisfactorily in respect of the significant risk and audit focus areas identified in the audit strategy document.

The annual accounts, governance statement and remuneration report were received at the start of the audit fieldwork. We have no matters to highlight in respect of adjusted audit differences or our independence.

Financial position

Page 5

The IJB attained an underspend against budget of £1.4 million for the year. Funding changes were made after the final outturn were agreed, such that reduced funding was received from Perth and Kinross Council, in order to deliver a break even against budget position. The Council held reserves equivalent to the underspend in an earmarked reserve at the year end.

The integration scheme states that in the event of an overspend in 2018-19, the partners can opt to allocate the overspend on a proportional basis. The partners informally agreed to fund overspends for which they have operational responsibility.

Financial management and financial sustainability

Page 15

The IJB faces ongoing financial pressures due to funding constraints and increasing cost pressures faced by its partners. With both partners facing overspends in their respective services, the implementation of the integration scheme may require partners to contribute further to the IJB. We remain satisfied that the IJB is a going concern as a result of the integration scheme and the financial sustainability of the partners.

We are satisfied that the ongoing development of a three year revenue budget will help the IJB plan for future pressures, and will enable management to have valuable conversations when discussing future budget settlements. We consider the arrangements regarding financial management are effective.

Outstanding matters

- [Receipt of management representation letter]
- [Draft annual report to KPMG]
- Completion of subsequent events procedures

Scope and responsibilities

Purpose of this report

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

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the IJB and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit and Performance Committee on 6 March 2018.

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

Accountable officer responsibilities

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

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

Auditor responsibilities

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

Scope

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

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

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

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

This report to those charged with governance and our presentation to the Audit and Performance Committee, together with previous reports to the audit and performance committee throughout the year, discharges the requirements of ISA 260.

Financial position

Overview

The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the IJB should therefore be prepared in accordance with the 1973 Act and the 2017-18 Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

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

IJB financial management overview

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

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

Legislation empowers the Board to hold reserves. The integration scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. It highlights that in the event of an underspend at the year end, it will be retained by the IJB as reserves following agreement with the partners, unless the following conditions apply:

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

During 2017-18, the IJB did not overspend against budget, and before funding adjustments from Perth and Kinross Council ('PKC') it achieved an underspend. This underspend was effectively retained by PKC and an earmarked reserve held.

From 2018-19 onwards, in the event that an overspend remains following the application of a recovery plan, use of reserves, or where the strategic plan cannot be adjusted, the overspend may be allocated based on each partner's proportionate contribution to the IJB's budget requisition for that financial year on a like for like basis. This is discussed further on page 18.



Financial position (continued)

2017-18 financial position

The annual accounts are prepared on a going concern basis. A deficit of £1.4 million was reported in the comprehensive income and expenditure statement ("CIES"), which resulted in the reserves being drawn down, giving rise to £nil reserves as at 31 March 2018.

Comprehensive income and expenditure statement

The IJB's deficit position for 2017-18 reflects use of the prior year underspend, which was held in reserves as at 31 March 2017 and is now utilised. Compared to the budget there was a £1.4 million underspend as shown in the table opposite.

An underlying overspend of £1.3 million was reported against health services where operational responsibility lies with NHS Tayside. In line with the risk sharing agreement, NHS Tayside devolved further non-recurring budget to the IJB to balance income with expenditure.

Against social care budgets, where operational responsibility lies with PKC, an underspend of £2.6 million was reported. PKC retained the underspend in year, and reduced the funding to the IJB. This resulted in an accounting deficit on the provision of services in the IJB, which was funded from the general fund. Of the £2.6 million underspend, £1.4 million will be returned to the IJB as part of the 2018-19 budget settlement and the IJB is reliant on this funding to break even. The remaining £1.2 million will be held in a PKC earmarked reserve for social care purposes.

The NHS Tayside overspend is made up of some variances:

- GP prescribing: overspend of £1.7 million. A national settlement was expected on some drug costs, however this did not materialise during 2017-18 resulting in a greater spend than budgeted. The overspend was marginally offset by lower than expected volumes.
- Inpatient mental health: overspend £0.2 million. Primarily due to the general adult psychiatry where locum spend was higher as a result of increased number of locum sessions against budget.

Expenditure	2017-18 Budget (£000)	2017-18 Actual (£000)	(Under)/ over spend
Older peoples service/physical disabilities	65,371	63,777	(1,594)
Learning disabilities	18,237	17,378	(859)
Mental health and addictions	4,943	4,958	15
Planning/management/other services	7,780	7,047	(733)
Prescribing	26,763	28,467	1,704
General medical services	23,392	23,204	(188)
Family health services	16,481	16,474	(7)
Hosted services	20,666	20,970	304
Large hospital set aside	11,793	11,793	0
Total expenditure	195,426	194,068	(1,358)
Breakdown of variance:			
Health	145,865	147,144	1,279
Social Care	49,561	46,924	(2,637)

Source: Annual Performance Report

- Hospital and community health services: underspend £0.5 million. This was due to lower utilisation of the primary care transformation funding and increased junior doctor vacancies. The underspend was partially offset by overspends in locum consulting costs in psychiatry of old aged and ongoing sickness levels in community hospitals.

Financial position (continued)

Recurring baseline budget

In previous years the Scottish Government provided funding to IJBs across Scotland for the IJB to use to transform services, support integration and to reduce delayed discharges. However, as all IJBs have matured this is no longer funded directly from the Scottish Government, now funded as part of the IJB's recurring baseline budget from partners from 2017-18. The recurring baseline budget for 2017-18 included £1.3 million for the integrated care fund and £9.3 million for social care funding.

Related party transactions

NHS Tayside receives the recurring baseline budget on behalf of the IJB and expenditure is drawn down through NHS Tayside. As PKC uses the baseline budget to deliver services, it invoices NHS Tayside for the services.

In addition NHS Tayside allocates funds to PKC for the cost of social care packages, this totalled £6.25 million and was invoiced in the same way as set out above. This payment is to support PKC in delivery social care within the community for those discharged from hospital.

In total in the year there was a £17.7 million payment from NHS Tayside to PKC, this is included in Note 8: Related Party Transactions of the annual accounts.

In line with other IJBs nationally, there is a requirement to recognise funding from partners, and to recognise its commissioning expenditure, in order to disclose the gross cost of providing services. The annual accounts disclosure was updated in the year to better disclose the related party transactions.

Balance sheet

The £nil debtors balance at the year end arose through the planned use of reserves to deliver services in 2017-18. An agreement with PKC was not reached to carry forward the underspend to the IJB reserves resulting in no short term debtors. IJB 'cash' is held by the partner organisation due to the IJB not having a bank account, leading to a debtor to the IJB in prior years.

Balance sheet	2016-17 £000	2017-18 £000
Short term debtors	1,386	-
Net assets	1,386	-
Usable reserve : General fund	(1,386)	-
Total reserves	(1,386)	-

Source: Annual accounts 2017-18

Audit conclusions

Audit opinion

Following approval of the annual accounts by the IJB Board, we expect to issue an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2018, and of the deficit for the year then ended.

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

Financial reporting framework, legislation and other reporting requirements

The IJB is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.

Statutory reports

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

Other communications

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

Audit misstatements

There were no misstatements identified during the audit. There were a number of presentational and disclosure adjustments made by management as a result of our audit.

Written representations

Our representation letter will not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

Materiality

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

We used a materiality of £1.9 million for the IJB's financial statements. This equates to 1% of cost of services expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. We report all misstatements greater than £95,000.

Forming our opinions and conclusions

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

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

Financial statements preparation

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

In advance of our audit fieldwork we issued a 'prepared by client' request setting out a list of required analyses and supporting documentation. We received working papers of good quality, and draft financial statements were provided on 27 June 2018, including the management commentary and the remuneration report.

During the audit, presentational changes were agreed with management to reflect the resource transfer between NHS Tayside and PKC.

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

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

Significant risks (page ten of this report):

- management override of controls fraud risk.

Other focus areas (page 11 of this report):

- completeness and accuracy of expenditure; and
- financial sustainability (also a wider scope area).

Wider scope areas (page 14 of this report):

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

Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Fraud risk from management override of controls</p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as the standards consider management to typically be in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the IJB.</p> <p>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</p> <p>In line with our methodology, we carried out appropriate substantive procedures, including over funding confirmations, expenditure reports and significant transactions that are outside the entity's normal course of business, or are otherwise unusual.</p>	<p>Our work did not identify any matters that required adjustment in the financial statements or which require to be brought to your attention.</p>
<p>Fraud risk from revenue recognition</p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>The IJB receives funding requisitions from Perth and Kinross Council and NHS Tayside. These are agreed in advance of the year, with any changes requiring approval from each partner body. We therefore rebutted the risk.</p>	<p>We vouched all income to confirmations from the partner bodies.</p>	<p>Income is appropriately stated.</p>

Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Completeness and accuracy of expenditure</p> <p>The Board receives expenditure forecasts from PKC and NHS Tayside as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding is not correctly captured.</p>	<p>Our substantive audit obtained support for the expenditure included in PKC and NHS Tayside's accounting records. We obtained confirmations of expenditure from each of these bodies.</p> <p>We inspected the audited NHS Tayside annual accounts for 2017-18, and received written confirmation from the Head of Finance of PKC in respect of funding to, and expenditure incurred on behalf of, the IJB.</p>	<p>We are satisfied that expenditure is complete and accurate.</p>
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board given the challenging environment where funding is reduced and efficiency savings are required</p>	<p>The IJB receives funding requisitions from NHS Tayside and PKC, and has a risk sharing agreement within the integration scheme with both bodies for 2017-18. This gives the IJB comfort with regards to overspends for 2017-18, however, there is a risk going forward regarding ongoing budget balance, specifically in the context of the challenging NHS and Council budgets.</p> <p>We considered the IJB's long term financial planning in detail in the wider scope section from page 14.</p>	<p>We are content that the IJB is financially sustainable given the risk sharing agreement. Further narrative included on page 17 and 18.</p>

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts.</p>	<p>The information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.</p>
Remuneration report	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>The information contained within the revised remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
Annual governance statement	<p>The statement for 2017-18 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the IJB's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework.</p> <p>We consider the annual governance statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the delivering good governance in local government framework.</p>	<p>We consider the governance framework and revised annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.</p>

Qualitative aspects and future developments

Qualitative aspects

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

We consider the accounting policies adopted by IJB to be appropriate. There are no significant accounting practices which depart from what is acceptable under the Code of Practice on Local Authority Accounting.

Financial statement disclosures were considered against requirements for the Code of Practice on Local Authority Accounting, relevant legislation and IFRS. No departures from these requirements were identified.

There were no new accounting standards adopted by the Code of Practice on Local Authority Accounting during 2017-18 which affected the IJB.

There are no significant accounting estimates other than those relating to the calculation of the pension assets and liabilities previously summarised.

Financial statement disclosures were considered against requirements of Code of Practice on Local Authority Accounting, relevant legislation and IFRS. No departures from these requirements were identified.

Future accounting and audit developments

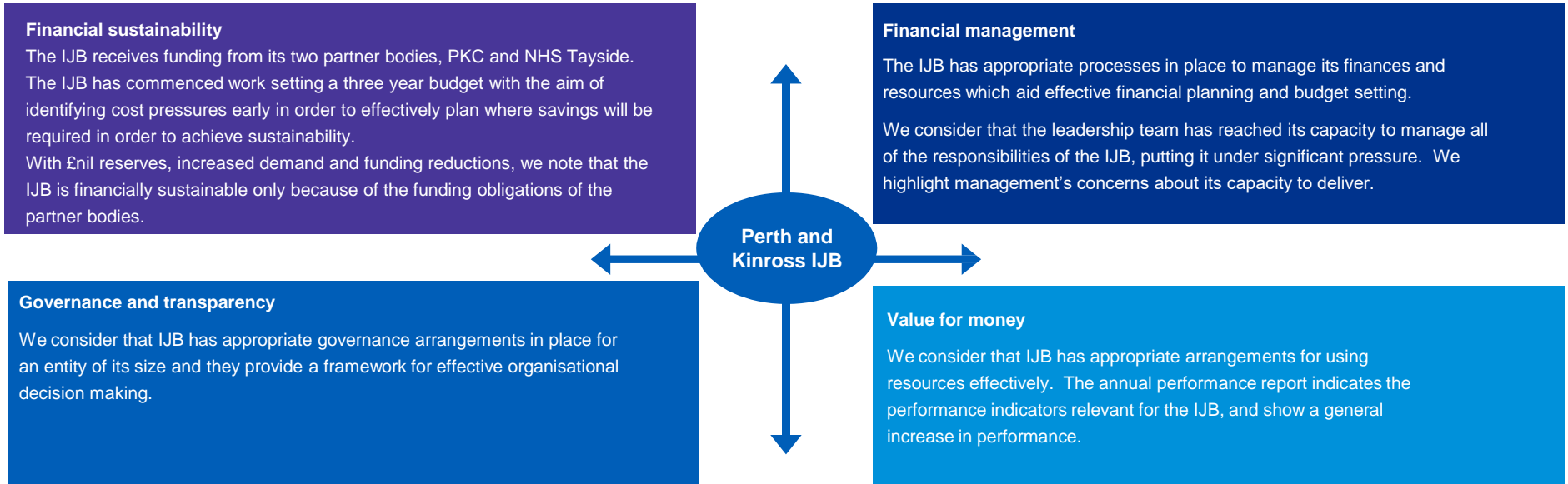
CIPFA / LASAAC consulted on amendments to the CIPFA code for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers*. A separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice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

Audit dimensions introduction and conclusions

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

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

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



Financial management

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

The chief finance officer is responsible for ensuring that appropriate financial services are available to the IJB and the chief officer.

Budgetary controls

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

The IJB produces a quarterly finance update which is taken to both the Board and the Audit and Performance Committee. Management reports the financial position to the IJB at each meeting throughout the financial year. This contains sufficiently detailed information to allow members to understand budget variances, and to respond to issues.

Financial reporting is provided to the IJB throughout the year, it includes financial commentary. Ideally this should be up to the end of the previous month. We note that on 23 March 2018, the IJB was presented with financial reporting up to 31 December 2017, which was three months old. We recognise that the availability of financial information from the partners drives how quickly management can present financial reports to the Board but we recommend that more up to date information is presented by the IJB throughout the year.

Recommendation one

Internal audit

The IJB has an internal audit function which undertakes reviews at both the IJB level and the local authority level. NHS Tayside has its own internal audit function, however any reviews specific to the IJB are shared with the Board and Audit and Performance Committee.

The chief internal audit auditor concluded in the annual audit report that sufficient work was completed during the year, to enable him to conclude that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system.

At the date of issuing its opinion (15 June 2018) the chief internal auditor noted that the planned risk management review was delayed to enable internal audit to provide support in relation to the development of risk management arrangements.

Financial regulations

The IJB has standing financial regulations which determine how spend can be authorised. The highest budget virement that can be approved by the Chief Officer is £10,000, with anything above that level having to go through the Board, which conducts its meetings in public. We consider this to be an appropriate level for escalation.

Financial management

Capacity and service transformation

The S95 officer is the chief finance officer, therefore has appropriate status within the IJB and access to the partner chief executive officers and Board members. The finance function consists of the chief finance officer, and other resources are used as required from PKC and NHS Tayside finance teams. The partnership accountant provides significant support to the day to day financial management and control within the IJB.

We note that senior management has significant concerns regarding the IJB's capacity to satisfy the full responsibilities of the IJB. Specifically there is concern in respect of being responsible for adult mental health services alongside the other services, and having the capacity to effectively direct the activities.

The IJB continues, through redesigning care, to analyse service expenditure in order to identify savings and efficiencies. We discussed with management the capacity to the IJB to commit resources to identifying and implementing efficiencies. It was identified that there are capacity shortfalls that reduce the ability of management to investigate,. As the IJB does not have staff, there are challenges in obtaining resources from partners to continue transformation going forward.

Training

The Board provides induction and ongoing training for both elected members and other Board members. An induction session was held for new elected members following the May elections. This was open to all IJB members and was intended to give an understanding of the IJB and also covered governance issues such as the code of conduct and the Nolan principles.

Arrangements for the prevention and detection of fraud

We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for council staff and elected members, whistleblowing, fraud prevention and fraud response plan.

Conclusion

The IJB has robust controls over the monitoring of expenditure against budget, with regular reports going to public meetings of the IJB. We recognise the increasing need for the Board to have timeous information in order to make effective and informed decisions.

Financial capacity is appropriate for the purposes of delivering services. We concur with management's assessment that further support is needed to ensure that there is adequate capacity to deliver on savings plans and effectively direct all services.

Financial sustainability

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

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

Budgets and financial position

As noted in the 2016-17 annual audit report, management did not recommend the approval of the 2017-18 budget until June 2017, recognising the challenges and uncertainties that existed. The 2017-18 budget was prepared independently of the partners bodies, and management developed greater communication with the partner bodies prior to, and during budget setting.

In 2018-19, management began the process of setting a three year revenue budget covering 2018-19, 2019-20 and 2020-21. This budget remains in draft, however we acknowledge the good practice in developing an understanding of future cost pressures, and future assumptions that may impact on service delivery. We consider these arrangements as appropriate.

The budget for 2018-19 was approved on 23 March 2018, prior to the start of the following financial year as required.

PKC has set out its budgetary pressures to elected members; total revenue funding from the Scottish Government has decreased in real terms since 2010-11 and the Council identified savings requirements (£54.5 million) over the period from 2018-19 to 2023-24 in order to continue to provide services to meet demand. The Council's Medium Term Financial Plan allocated £2.8 million of savings to the delivery of social care for the three years from 2018-19, half of this requiring delivery in 2018-19. Initial results for 2018-19 indicate an overspend in social care, which the IJB will need to manage going forward.

NHS Tayside continues to be under acute financial pressure and received brokerage in 2017-18. There are ongoing concerns about the levels of expenditure and the pace of change of improvements and transformation, and there have been resignations at executive level. We note that the NHS Tayside Board has agreed with Scottish Government that repayment of additional funding received in prior years has been suspended, and that a break-even position in 2018-19 is deemed unlikely. Whilst the Board itself has these significant funding needs, the Scottish Government is supporting financially.

Reserves strategy

The reserves strategy was approved in March 2017, and management aspires to retain a general fund reserve of 2% of gross expenditure, or £3.9 million. The IJB holds no reserves as underspends in 2017-18 were retained by PKC, as the partner that delivered the underspend.

Financial sustainability (continued)

Risk sharing

The integration scheme sets out the process to be followed should the IJB overspend against the agreed budget. The chief financial officer is expected to manage the budget to ensure that there are no overspends. Where an unexpected overspend is likely the chief financial officer should agree corrective action to mitigate the overspend. Where this does not resolve the gap, agreement must be made between the partner bodies, in conjunction with the executive team, to agree a recovery plan to balance the budget.

Where this is unsuccessful and the IJB overspends at the year end, uncommitted reserves are applied to any overspend firstly and the remaining overspend is either met by an additional one-off payment from a partner. The integration scheme provides that for the first two years of financial operation (2016-17 and 2017-18), any overspend is met by the partner with operational responsibility. From the third year (2018-19) onwards, the integration scheme states that any overspend may be allocated based on each partner's proportionate contribution to the IJB, and this suggests formal agreement between the partners is required. For 2018-19, we understand there is an informal agreement that the overspend will continue to be met by the partner with operational responsibility, however, there is no formal documentation of this arrangement.

Recommendation two

This arrangement gives the IJB comfort that overspends will ultimately be met by the partner bodies. We note that it does not motivate collaborative working between the three parties. For example, overspends in a council-funded area of service may be driven by increased "high outcome" activity which delivers reduced demand in an NHS-funded area of service, given the benefits of "preventative care". There is no consideration for this in the integration scheme.

Going concern

The annual accounts are prepared on a going concern basis. The IJB is still in its relative infancy and is at the start of plans to transform services. There are no reserves as at 31 March 2018 to draw on. Both partner bodies have identified their financial challenges and put in place savings plans. As appointed auditor to PKC we have reported positively on its financial management arrangements and its proactive monitoring of budgets and savings. We consider that the Council is a going concern.

We consider that the Scottish Government is likely to continue to support NHS Tayside.

In light of this position, the strong management of resources and the commitment from the two partner organisations we concur with the going concern basis.

Conclusion

The IJB faces ongoing financial pressures, reflecting those faced by its partner bodies. With both partner organisations forecasting overspends in their respective services, the integration scheme may require partners to contribute further to the IJB. We remaining satisfied that the IJB is financially sustainable in the short term as a result of the ongoing commitment of the two joint venture partners.

We are satisfied that the ongoing development of a three year revenue budget will help the IJB plan for future pressures, and will allow management to have quality conversations when discussing future budget settlements.

Governance and transparency

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

Governance framework

The integration scheme between PKC and NHS Tayside sets out the key governance arrangements. The Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the IJB and for monitoring the adequacy of these arrangements.

The Board and Audit and Performance Committee hold meetings on a regular basis throughout the year. We review minutes from each to assess their effectiveness. We also periodically attend meetings of the Audit and Performance Committee. From this we consider scrutiny to be effective.

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

In March 2018, the Chief Financial Officer reported to the Audit and Performance Committee that there are differences in interpretation of legislation across the Tayside IJBs, and agreed to discuss further with the partners on the arrangements for governance and accountability within the IJB. The Chief Officer is expected to report back to the Board in September 2018. Whilst not considered high risk, there is the need for consistency of arrangements to ensure there is mutual understanding of each of the three IJBs within the Tayside region.

Internal audit

Internal audit provides the IJB and Accountable Officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.

The internal audit function is carried out by the Fife, Tayside and Forth Valley internal audit service, in conjunction with PKC's internal audit in its role as PKC internal auditors. We carried out a review of the adequacy of the internal audit code of conduct and concluded that they operate in accordance with the Public Sector Internal Audit Standards and have sound documentation standards and reporting procedures.

During 2017-18, the chief internal auditor reported to the audit and performance committee that reliance can be placed on the IJB's governance arrangements and systems of internal controls for 2017-18. We concurred with these findings. We considered internal audit report findings on governance arrangements as part of our wider dimension work.

Risk management

In 2016, the three IJBs within the Tayside area agreed risk management strategy, in conjunction with their respective partner bodies. A strategic risk framework was developed (risk register) which was considered at the Audit and Performance Committee in March 2018. The policy requires quarterly consideration of the risk register at a senior management team level, and for annual consideration at the audit and performance committee. We consider reporting frequencies to be reasonable.

The IJB has undertaken a self-assessment of its governance framework, and presented an action plan to APC on 19 June 2018. This provided assurance that key risks to the achievement of integration objectives have been appropriately identified, communicated and actions undertaken. Regular updates provide assurance to the Board that the risk previously identified are being addressed by management.

Governance and transparency (continued)

Internal control

Perth and Kinross Council and NHS Tayside are the partner bodies. All financial transactions of the IJB are processed through the financial systems of the partner bodies and are subject to the same controls and scrutiny as the Council and Health Board, including the work performed by internal audit.

Fraud

Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by one of the partner bodies internal audit sections. Since the Board does not directly employ staff, investigations will be carried out by the internal audit service of the partner body where any fraud or irregularity originates. NHS Tayside can also call on the expertise of Counter Fraud Services provided through NHS National Services Scotland.

Conclusion

The IJB has effective scrutiny and governance arrangements, supported by joint internal audit staff from both partners, and with adequate focus on risk management. The IJB conducts its business in an open and transparent manner.

Value for money

Value for money (“VfM”) is concerned with using resources effectively and continually improving services.

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

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

Performance indicators

As part of the IJB’s arrangements to consider value for money, management produce and present an annual performance report to the Board. The report links performance of the five IJB objectives against the nine national health and wellbeing outcomes as set out in the strategic commissioning plan.

The partnership objectives cover:

- prevention and early intervention;
- person-centred health, care and support;
- working together with our communities;
- reducing inequalities and unequal health; and
- making best use of available facilities, people.

The annual report highlights the strength and weaknesses of the IJB against historic performance, and performance against the Scottish average. From a review of the annual performance report, the IJB is performing favourably compared to the Scottish average, and have largely improved against previous regional results.

Value for money in key decisions

The board considers and discusses difficult decisions throughout the year as appropriate. For example, the transformational change projects to prioritise. These are supported by options appraisals and business cases where appropriate.

Workforce planning

The IJB’s workforce plan is being developed, which was due to be presented to the board in June 2018, however has been delayed until September 2018.

Management is aware of the risk of a shrinking workforce, and plans are being developed that will manage the future workforce.

Recommendation three

End of public sector pay cap

The Scottish Government has stated its intention for the 1% public sector pay cap which has applied for seven years is being lifted. It is not clear when increases will take effect or how they will be funded.

To mitigate the uncertainty risk surrounding pay increases the IJB included in its five year plan an assumption that the pay increases announced for NHS staff will be similar to that agreed for council staff.

Conclusion

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

We propose a recommendation in relation to the workforce plan.



Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.</p> <p>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.</p>	<p>Page eight summarises the opinions we have provided.</p> <p>Page 12 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report</p>
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; - Suitability of arrangements for preparing and publishing statutory performance information 	We have set our conclusions over the audit dimensions on page 14.

Auditor independence

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

Summary of fees

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

There were no non-audit services provided during the year to 31 March 2018.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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








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

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

Yours faithfully,

KPMG LLP

Required communications with the IJB Board

Type	Response
Our draft management representation letter	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018
Adjusted audit differences	 Our summary of adjusted audit differences are highlighted in appendix four.
Unadjusted audit differences	 There were no unadjusted audit differences
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Performance Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We did not test any internal controls during our audit, and therefore have no deficiencies to report. Management retain the responsibility for maintaining an effective system of internal control.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	 No significant difficulties were encountered during the audit.
Modifications to auditor's report	 None.
Disagreements with management or scope limitations	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	 No material inconsistencies were identified related to other information in the annual report, management commentary and annual governance statement. The management commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	 Over the course of our audit, we have evaluated the appropriateness of the IJB's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Key audit matters discussed or subject to correspondence with management	 The key audit matters (summarized on pages 10 and 11) from the audit were discussed with management.

Action plan

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

We present the identified findings across four audit dimensions:

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

Priority rating for recommendation

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

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

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

Finding(s) and risk(s)	Recommendation	Agreed management actions
1. Financial reporting timeliness (page 15)		Grade two
<p>During our audit, we review financial reporting as part of our assessment of financial management. We identified on that financial reporting was in excess of two months behind, most notably on 23 March 2018, were the financial position being reported was 31 December 2017.</p> <p>There is a risk that members and management are unable to respond to financial pressures in a timeous manner. We recognise that the IJB is reliant on the financial reporting of PKC and NHS Tayside.</p>	<p>We recommend that management discuss with partners the financial reporting process. Any reduction in the timescales would allow members to make decisions based on more up to date information</p>	<p>Management response: Agreed. Actions have been taken to accelerate financial reporting which will ensure an improvement in timescales for reporting.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: Complete</p>

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
2. Risk sharing agreement (page 18)		Grade two
<p>The integration scheme states that any overspend incurred from 2018-19 onwards may be allocated on a proportionate basis of each partners contribution to the IJB. For 2018-19, there has been an informal agreement between the partners that any overspend will be met by the partner with operational responsibility. There is no formal documentation for this arrangement.</p> <p>From our discussion with management, and our understanding of the integration scheme, we consider best practice to be a formal documentation of the agreement, which will assist in the partners approach to budgeting.</p>	<p>We recommend that the partners formally agree the approach for overspends on an annual basis in advance of the financial year on which agreement is sought.</p>	<p>Management response: Agreed.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: 31 October 2018</p>
3. Workforce planning (page 21)		Grade three
<p>The IJB's workforce plan is being developed. Once complete this will reflect the NHS approach to workforce planning. The executive team has completed work to date, however the workforce plan has still to be approved by the Board.</p> <p>There is a risk, given the demographics of the workforce, that without a workforce plan in place there could be a detrimental impact to the achievement of the IJB's strategy.</p>	<p>The IJB should progress workforce planning to identify and address potential skills gaps.</p>	<p>Management response: Agreed. Development of workforce plans will be a key priority for each Care Programme Board.</p> <p>Responsible officer: Clinical Director / Head of Health</p> <p>Implementation date: 31 March 2019</p>

Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2016-17 final audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
Final	3	3	-	-

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

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

Prior year recommendations (continued)

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



The contacts at KPMG in connection with this report are:

Andy Shaw

Director

Tel: 0131 527 6673

andrew.shaw@kpmg.co.uk

Natalie Dyce

Manager

Tel: 0141 300 5746

natalie.dyce@kpmg.co.uk

Christopher Windeatt

Assistant Manager

Tel: 0131 451 7738

christopher.windeatt@kpmg.co.uk



© 2018 KPMG LLP, a UK limited liability IJB and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.