

# Perth and Kinross Integration Joint Board

DRAFT 2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Perth and Kinross Integration Joint Board and the Controller of Audit  
October 2023

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# Key messages

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## Audit of 2022/23 annual accounts

- 1 Audit opinions on the annual accounts of the IJB are unmodified.
- 2 The unaudited annual accounts were provided within the agreed timescales and were of a good standard.

## Financial management and sustainability

- 3 The IJB has appropriate and effective financial management arrangements in place. The IJB had an operational “in-year” underspend of £4m, with the use of reserves (including paying back Covid-19 reserves) taking the IJB to a total £16m deficit in-year.
- 4 The IJB still has reserves of £17 million available to support developments, of these £9.5 million are general reserves and £7.5 million are earmarked.
- 5 Medium-term financial plans have been developed which show a recurring budget deficit of £1 million in 2024/25 and £1.5 million in 2025/26.

## Vision, leadership, governance and use of resources

- 6 The governance arrangements are appropriate and support effective scrutiny, challenge and informed decision-making.
- 7 Recruitment challenges remain a significant risk for the IJB.
- 8 The IJB plans to conduct a self-assessment in 2023/24 to ensure it is complying with Best Value.
- 9 The IJB’s overall performance was mixed in 2022/23.

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# Introduction

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1. This report summarises the findings from the 2022/23 annual audit of Perth and Kinross Integration Joint Board (the IJB) and will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
2. The scope of the audit was set out in an annual audit plan presented to the April meeting of the Audit and Performance Committee. This annual audit report comprises significant matters arising from the audit of the IJB's 2022/23 Annual Accounts and conclusions on the wider scope areas, as set out in the [Code of Audit Practice 2021](#).
3. We would like to thank elected members, management and staff for their co-operation and assistance, and we look forward to continuing to work together constructively over the course of the five-year appointment.

## Adding value through the audit

4. We aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources. We do this by sharing intelligence and good practice and by identifying and providing insight on significant risks and making clear recommendations for improvement

## Responsibilities and reporting

5. The IJB has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The IJB is also responsible for compliance with legislation and establishing appropriate arrangements for governance and propriety.
6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.
7. This report contains an agreed action plan at the [Appendix](#) setting out specific recommendations, responsible officers and dates for implementation. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of its responsibility to address the issues we raise and from maintaining adequate systems of control.

## Auditor independence

8. We confirm that we comply with the Financial Reporting Council's Ethical Standard and that we have not undertaken any non-audit related services. The 2022/23 audit fee of £31,470, as set out in our 2022/23 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity or our independence.

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# 1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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Audit opinions on the annual accounts of the IJB are unmodified.

The unaudited annual accounts were provided within the agreed timescales and were of a good standard.

Prior year recommendations have been completed.

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## **Audit opinions on the annual accounts are unmodified**

**9.** The Audit and Performance Committee approved the annual accounts for the year ended 31 March 2023 on 30 October 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with the financial reporting framework
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## **The 2022/23 audit was completed on 30 October 2023 in line with the agreed audit timetable**

**10.** The unaudited annual report and financial statements were received in line with our agreed audit timetable on 28 June 2023. The accounts and working papers presented for audit were of a good standard and management and finance staff provided good support to the team during the audit process. This helped ensure that the final accounts audit was completed in line with the audit timetable on 30 October 2023.

## Overall materiality was assessed as £5.5 million

**11.** The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature, and it is ultimately a matter of the auditor's professional judgement.

**12.** Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the audited 2021/22 annual accounts. These materiality values were reported in our annual audit plan.

**13.** On receipt of the unaudited annual accounts we reconsidered our materiality levels based on the financial results for the year ended 31 March 2023, and updated our materiality levels. These revised materiality levels are summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£5.5 million
Performance materiality	£4.1 million
Reporting threshold	£250,000

**14.** The overall materiality threshold for the audit of the annual accounts was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

**15.** Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality.

**16.** It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

## Significant findings and key audit matters

**17.** Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the Audit and Performance Committee, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all auditors to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judge to be of most significance in our audit of the financial statements.

19. We have no issues to report from the audit.

## Our audit work responded to the risks of material misstatement we identified in the annual accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 2

#### Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively</p>	<p>Agreement of balances and income to Perth &amp; Kinross Council and NHS Tayside financial reports / ledger / correspondence.</p> <p>Auditor assurances will be obtained from the auditors of Perth &amp; Kinross Council and NHS Tayside over the controls which ensure completeness, accuracy and allocation of income and expenditure.</p> <p>Review of year-end consolidation of expenditure reports from Perth &amp; Kinross Council and NHS Tayside, including examining any significant adjustments.</p>	<p><b>Results &amp; Significant Judgements:</b></p> <p>Balances and transactions in the partner bodies ledgers were consistent with the IJB's accounts.</p> <p>Assurances were obtained from the auditors of Perth &amp; Kinross Council and NHS Tayside and agreed to the year-end position reported in the audited accounts.</p> <p>Year-end adjustments were reviewed, and no errors identified.</p> <p>We reviewed financial reports prepared during 2022/23.</p> <p><b>Conclusion:</b> Audit work found no errors or other accounting treatment that would indicate management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>2. Accounting treatment of Covid-19 reserve balance clawback from IJBs by Scottish Government</b></p> <p>In February 2023, NHS Tayside was advised that its 2022/23 revenue resource allocation would be reduced for the unspent Covid-19 reserve balances that the Scottish Government has clawed back from IJBs.</p> <p>This will be reflected in a corresponding reduction in NHS Tayside's contribution to Perth &amp; Kinross IJB of £10.3 million for 2022/23.</p> <p>The clawback amount was determined based on period 8 expenditure and may be further adjusted as a result of actual Covid-19 expenditure in 2023.</p> <p>It will be important that Perth and Kinross IJB and NHS Tayside account for this on a consistent basis.</p>	<p>Review accounting treatment against accounting requirements agreed with Scottish Government and confirm this is adequately disclosed in Perth and Kinross IJB's 2022/23 Annual Accounts</p>	<p><b>Results and Significant Judgements:</b></p> <p>Reviewed the accounting for the clawback of the reserves.</p> <p>Agreed the treatment to the accounting within NHS Tayside.</p> <p><b>Conclusion:</b> the accounting for the clawback of reserves is satisfactory.</p> <p>It is noted that the underspend on the Covid-19 reserves has been carried forward to 2023/24 as agreed with the Scottish Government.</p>

## Both recommendations made last year have been addressed

**21.** The previous external auditor, KPMG, made two recommendations in the 2021/22 annual audit report. Both these recommendations have been addressed. See [Appendix](#) for details.



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## 2. Financial management and Sustainability

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

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The IJB has appropriate and effective financial management arrangements in place. The IJB had an operational in-year underspend of £4 million with the use of reserves (including paying back Covid19 reserves) taking the IJB to a £16 million deficit in-year.

The IJB still has reserves of £17 million available to support developments, of these £9.5 million are general reserves and £7.5 million are earmarked.

Medium-term financial plans have been developed which show a recurring budget deficit of £1 million in 2024/25 and £1.5 million in 2025/26.

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### **The 2022/23 budget included planned savings and contributions from reserves to address the funding gap**

**22.** The IJB approved its 2022/23 core budget in March 2022. A balanced budget was set after application of savings totalling £1.280 million and £1 million funding from reserves.

### **The IJB returned an overspend in 2022/23**

**23.** The IJB does not have any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer and Chief Finance Officer. All funding and expenditure for the IJB is incurred by partner bodies and processed in their accounting records.

**24.** The IJB returned an operational underspend of £4 million against the budgeted breakeven position ([Exhibit 3](#)). The IJB also applied £20.4 million of earmarked reserves (including £14.7 million of Covid-19 reserves) to fund additional expenditure in 2022/23 resulting in an overall deficit of £16.4 million recorded in the accounts.

**Exhibit 3****Performance against budget**

<b>IJB budget summary</b>	<b>Budget £m</b>	<b>Actual £m</b>
NHS Tayside	0.786	(0.219)
Perth & Kinross Council	0	(3.789)
Over/(underspend)	0.786	(4.008)
Clawback of Covid19 Reserves and other earmarked reserves applied	0.264	20.423
Deficit reported in year	1.050	16.415

Source: 2022/23 Draft Accounts

**Budget processes were appropriate**

**25.** Budget monitoring reports were submitted to the IJB Board throughout the year. The outturn to date and projected year-end outturn position were clearly stated in these reports and the actual year-end outturn position was in line with expectations.

**26.** We observed that senior management and members receive regular and accurate financial information on the IJB's financial position and have concluded that the IJB has appropriate budget monitoring arrangements in place.

**Financial systems of internal control operated effectively**

**27.** The IJB does not have its own financial systems and instead relies on the financial systems of its partner bodies, NHS Tayside and Perth & Kinross Council. As part of our audit approach, we obtained assurances from the external auditors of NHS Tayside and Perth & Kinross Council (in accordance with ISA 402) and confirmed there were no weaknesses in the systems of internal control for either the health board or the council that would impact on the IJB.

**Internal audit concluded that reliance can be placed on the IJB's governance arrangements and systems of internal controls for 2022/23**

**28.** The IJB's internal audit function is led by the Perth & Kinross Council Chief Internal Auditor assisted by the Fife, Tayside and Forth Valley NHS internal audit consortium. Internal audit presented their Annual Audit Report to the June 2023 Audit and Performance Committee. The report concluded that reliance can be placed on the IJB's governance arrangements and systems of internal controls for 2022/23.

## **Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate**

**29.** The IJB does not maintain its own policies relating to the prevention and detection of fraud and error but instead depends on those in place at its partner bodies. We obtained assurance from the partners' auditors that the arrangements in place at Perth & Kinross Council and NHS Tayside are adequate.

**30.** The IJB has a Code of Conduct for members and the Registers of Interest are publicly available on the website.

**31.** Appropriate arrangements are in place for the prevention and detection of fraud and error. We are not aware of any specific issues we require to bring to your attention.

## **The IJB has a medium-term financial plan which shows a recurring budget deficit of £1 million in 2024/25 and £1.5 million in 2025/26**

**32.** Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

**33.** The IJB continues to face significant financial pressures. It set a balanced budget for 2023/24 after application of savings totalling £3.6 million and £3.8 million of general reserves. The IJB also plans to use £3.3 million of earmarked reserves to support delivery of services in 2023/24.

**34.** The 2023/24 budget report also includes indicative budgets for 2023/24 and 2024/25. These show a budget gap of £1 million for 2023/24 and £1.5 million for 2024/25 after planned savings of £1.1 million and £0.2 million respectively. The IJB acknowledges that it will need to consider additional funding solutions and reductions to overall expenditure if it is to balance its budget in future years.

## **The IJB has a Strategic Commissioning Plan and associated services plans in place, but more work will be required to address budget pressures**

**35.** The IJB has a Strategic Commission plan 2020 - 2025 with associated service plans in place. It is recognised that additional work will be required to ensure that the savings identified in the medium-term budget forecast will be delivered and to meet inflationary pressures.

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# 4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

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Governance arrangements are appropriate and support effective scrutiny, challenge and informed decision-making.

The IJB's Vision, Strategy and Priorities are clear.

Recruitment challenges remain a significant risk for the IJB.

Climate change arrangements are the responsibility of the IJB's partner bodies.

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## **Governance arrangements are appropriate and support effective scrutiny, challenge and informed decision**

**36.** In making our assessment of the IJB's governance arrangements we considered the:

- structure and conduct of board and committee meetings
- overall arrangements to ensure appropriate standards of conduct including compliance with the Standing Financial Instructions and Standing Orders
- arrangements for the prevention and detection of fraud, error, bribery and corruption
- reporting of performance and whether this is fair, balanced and understandable.

**37.** The IJB Board met six times on a hybrid basis during 2022/23, and the Audit and Performance Committee met three times. The papers presented to the Board and the Audit and Performance Committee are published timeously on the IJB's section of Perth & Kinross Council's website.

**38.** Our observations at committee meetings throughout the year has found that these are conducted in a professional manner and there is a good degree of scrutiny and challenge by members.

**39.** Overall, we consider that governance arrangements are appropriate and support effective scrutiny, challenge and decision making.

### **The IJB's Vision, Strategy and Priorities are clear**

**40.** The IJB has a strategic framework which includes the Strategic Commissioning Plan, Service delivery plans and the 3-year financial plan. These documents outline the current priorities and the actions to be taken to implement them. The strategic aims are as follows:

- working together with our communities
- prevention and early intervention
- person-centred health, care and support
- reducing inequalities and unequal health outcomes and promoting healthy living
- making best use of available facilities, people and other resources

### **Recruitment challenges remain a significant risk for the IJB**

**41.** Last year's Annual Audit Report noted that *'Recruitment challenges continue within Health and Social Care Sectors, while demand for services increases. Filling positions and attracting the right candidates with the appropriate skills is an ongoing challenge'*. In June 2022, the IJB approved a 3-year Workforce Plan for Health and Social Care which set out how it planned to address these challenges.

**42.** The IJB considered a report on progress against the workforce action plans in March 2023. This concluded that, overall, good progress was being made although it recognised that increasing demand continues to present capacity challenges for the IJB. We note that the IJB has recently been awarded funding to pilot international recruitment to help alleviate staffing pressures within adult social care services.

### **Climate change arrangements are the responsibility of the IJB's partner bodies**

**43.** The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**44.** The IJB as a public body listed in the Climate Change (Duties of Public Bodies; Reporting Requirements) (Scotland) Order 2015 is required to report annually on compliance with climate change duties. The annual report by the IJB highlights that functions of climate change have not been delegated to the IJB and remain the responsibility of its partner bodies, Perth & Kinross Council and NHS Tayside. The partner bodies climate change arrangements are detailed in the 2022/23 Annual Audit Reports of the respective bodies.

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# 5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

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Performance reporting was of a good standard.

The IJB plans to conduct a self-assessment in 2023/24 to ensure it is complying with Best Value.

The IJB's overall performance was mixed in 2022/23.

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## Performance reporting was of a good standard

**45.** The Management Commentary in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

**46.** Year-end data was available for all indicators and included in the annual accounts. Financial performance was also covered, with clear commentary on the financial outturn and the impact that Covid-19 costs and funding had on the 2022/23 outturn and reserves.

## The IJB plans to conduct a self-assessment in 2023/24 to ensure it is complying with Best Value

**47.** Integration Joint Boards have a statutory duty to have arrangements to secure Best Value. To achieve this, IJBs should have effective processes for scrutinising performance, monitoring progress towards their strategic objectives and holding partners to account.

**48.** The IJB has a strategic planning framework, including its Strategic Commissioning Plan, 3-year financial plan, workforce plan and performance reporting, to support the achievement of its Best Value duties. It clearly recognises the importance of securing Best Value with the building blocks to achieve this being set out in its Annual Performance Report. It acknowledges that more needs to be done, however, to demonstrate that it is securing Best Value from its available resources and has committed to conducting a self-assessment against the Best Value characteristics in 2023/24.

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## Recommendation 1

The IJB should ensure it completes its self-assessment against the Best Value characteristics and report the outcome to the Audit and Performance Committee.

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### The IJB's overall performance was mixed in 2022/23

**49.** The Public Bodies (Joint Working) (Scotland) Act 2014 requires the IJB to produce an annual performance report covering areas such as assessing performance in relation to national health and wellbeing outcomes, financial performance and best value, reporting on localities, and the inspection of services.

**50.** The IJB has continued to monitor key performance measures throughout the year with the Annual Performance Report being presented to the Audit and Performance Committee in July 2023. This shows that overall performance was mixed.

**51.** Performance against the national indicator data set was also mixed with the IJB comparing favourably to Scotland as a whole but performing less well when compared to its peer group and the prior year.

**52.** Where performance has not improved year on year the IJB has assessed the reasons for the decline in performance. The Performance Report includes a looking forward section for each service which outlines the actions being taken in each service area.

**53.** Overall the IJB has effective arrangements in place for managing and reporting performance.



# Appendix. Action plan 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Best Value assessment</b></p> <p>The IJB clearly recognises the importance of securing Best Value with the building blocks to achieve this being set out in its Annual Performance Report. It acknowledges that more needs to be done, however, to demonstrate it is securing Best Value from available resources and has committed to conducting a self-assessment against the Best Value characteristics in 2023/24.</p> <p><b>Risk:</b> the IJB is unable to demonstrate how it secures Best Value in the use of the resources available to it.</p>	<p>The IJB should ensure it completes its self-assessment against the Best Value characteristics and report the outcome to the Audit and Performance Committee.</p> <p><a href="#">Paragraph 48</a></p>	<p>Agreed. We will conduct a self-assessment to ensure compliance with the characteristics of Best value and report to the IJBs Audit and Performance Committee.</p> <p><b>Responsible officer:</b> Chief Finance Officer</p> <p><b>Agreed date:</b> 31 March 2024</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>B/F 1 Risk Sharing Agreement</b></p>	<p>We recommend that the wording of the paragraph relating to proportionate risk sharing be reviewed as the word “may” is not prescriptive and the alternative approach is not stipulated should this apparent option not be exercised/agreed by either partner.</p>	<p><b>Complete</b></p> <p>This recommendation was considered prior to approval of the revised integration scheme but the wording has remained unchanged.</p>

Issue/risk	Recommendation	Agreed management action/timing
<b>B/F 2 Financial Sustainability</b>	<p>We consider that a return of funding would need to be considered in terms of the accounting presentation in 2022-23 should a payment be made and the governance/IJB approval that may be required in respect of any payment.</p>	<p><b>Complete</b></p> <p>The clawback of Covid reserves was completed in 2022/23.</p> <p>The accounting treatment for the clawback was considered as part of the 2022/23 audit. No issues were identified.</p>

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# Perth and Kinross Integration Joint Board

## Draft 2022/23 Annual Audit Report

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