



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 2020

14 September 2020

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About this report

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

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

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

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities 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 Michael Wilkie, who is the engagement leader for our services to the IJB, telephone 0141 300 5890, email: Michael.Wilkie@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, by telephoning 0131 527 6682 or email 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 Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

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Audit conclusions

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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 14 September 2020.

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

We concurred with management's assessment that the entity remains a going concern for the 12 month period from 30 September 2020, in compliance with the statutory requirement to prepare accounts on a going concern basis.

The annual accounts 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

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The IJBs final outturn was an overspend against budget of £1.8 million for the year. Funding changes were made after the final outturn were agreed, such that increased funding was received from NHS Tayside and Perth and Kinross Council in order to deliver a break even position against budget. Associated with specific funding, the IJB decreased its reserves from £2.5 million to £1.2 million.

The integration scheme states that in the event of an overspend from 2019-20, the partners can opt to allocate the overspend on a proportional basis. The partners informally agreed to continue the default position of the integration scheme which is to fund overspends for which they have operational responsibility in 2019-20, and is expected to continue. Our recommendation of moving to a proportional risk sharing agreement has not been delivered in year, and is reported as a grade one action point for 2020-21.

Financial management and financial sustainability

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Since inception, the IJB has experienced an ongoing funding deficit, and the consolidated budget approved in September 2019 showed a £4.2 million overspend for the IJB in the year 2019/20.

The IJB faces ongoing financial pressures due to salary costs, price pressures and increasing demand for services. We remain satisfied that the IJB is a going concern as a result of the integration scheme and the financial sustainability of the partners.

There has been positive development of a three year financial recovery plan during 2019-20 which 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.

The IJB's arrangements for assessing and reporting on the impact of Covid-19 is considered appropriate.

We made a recommendation surrounding the achievement of the reserves strategy in respect of the budget setting process.

We also repeated concerns around the high turnover of voting members, and a continued lack of a workforce plan, both of which were recommendations in the prior year.

Governance and Transparency, and Value for money

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The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the board.

The annual performance report shows significant improvement with most of the indicators above the national average.

Scope and responsibilities

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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 engagement has been extended by Audit Scotland to 2021-22 in order to mitigate any potential impact of Covid-19 on the process for the next period of appointment.

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 17 February 2020.

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) (“ISAs”) issued by the Financial Reporting Council 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 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

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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 2019-20 Code of Practice on Local Authority Accounting in the United Kingdom (“the CIPFA Code”).

The Board is responsible for the strategic planning and delivery of health and adult social care services in Perth and Kinross. The Integration Scheme sets out those services the Board has delegated responsibility for, which includes ‘hosted’ services which are provided by the IJB on behalf of the other integration joint boards in the Tayside region, Dundee City and Angus.

IJB financial management overview

The IJB budget process begins in September each year with final presented to the Board for approval by March in advance of the financial year. Delegated baseline budgets for 2019-20 were compared to actual expenditure in previous years in order to build up the budget. Detailed forecasts have been prepared of anticipated salary, price and demand pressures along with the cost of meeting legislative changes and planned service developments.

The IJB have also introduced the Invest to Save strategy which is a three year strategy linked to the Older People Shifting the Balance of Care Programme that supports financial sustainability over the 3 year period. In developing this strategy, management drew on their budgetary review groups involving members, and member-officer working groups which is good practice. This approach, which has supported a significant reduction in delayed discharge, is anticipated to save £2.8 million over 3 years

In 2019-20, the IJB participated in the Perth and Kinross Council (“the Council”) budget process in order to commence early discussion over funding and anticipated expenditure pressures. This communication and co-operative working supports the long-term aims of the integration of health and social care.

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. Financial management is discussed further on page 15.



During 2019-20, the IJB had an overspend of £1.8 million compared to an initial expectation of £4.2 million, which is different to the deficit on the provision of services owing to the IJB’s responsibility for those hosted services across the Tayside region. The integration scheme states how overspends are resolved and a result was funded via the use of reserves (see page six). The final accounting position shows a deficit on the provision of services of £1.3 million which decreased the general fund reserve to £1.2 million.

This reserve is held within the IJB, and is retained for use in future years for application against spending commitments. Management have earmarked these reserves for 2020-21, and is discussed further on page 17.

The Board does not have any fixed assets, nor does it directly incur expenditure or employ staff. The Chief Officer and the Chief Financial Officer are appointed officers of the IJB. All funding and expenditure is delegated to the partner organisations and is recorded in the partner organisation’s accounting records.

Financial position (continued)

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2019-20 financial position

The annual accounts are prepared on a going concern basis. A overspend of £1.8 million was reported in the final outturn in June 2020 for the year ended 31 March 2020. The integration scheme states that ‘In the event that an overspend is evident following the application of a recovery plan, use of reserves or, where the Strategic Plan cannot be adjusted, the following arrangements will apply:-

- First 2 financial years of the Integration Joint Board - the overspend will be met by the Partner with operational responsibility unless agreed otherwise through a tripartite agreement between the Integration Joint Board and the Partners;
- 3rd financial year of the Integration Joint Board onwards – the overspend may be allocated based on each Partner’s proportionate contribution to the Integration Joint Board’s Budget Requisition for that financial year on a like for like basis.’

The out-turn in 2019-20 was an overspend of £1.8 million was an improvement when compared to the original budget with a deficit of £4.2 million and the subsequent financial recovery plan (“FRP”) target of £3.3 million.

Against social care budgets, where operational responsibility remains with the Council, an overspend of £2.4 million was originally budgeted for, however actions from the financial recovery plan lower than anticipated spent have offset this at the year end, resulting in an overspend of £1.5 million being reported.

In line with the integration scheme, both NHS Tayside and the Council devolved further non-recurring budget to the IJB to balance income with expenditure in order to break even against budget on an operational responsibility basis.

The health overspend is made up of the following significant variances:

- Core Health Services: overall year-end overspend of £0.55 million due to there being higher numbers and due to the complexity of patients.
- In-Patient Mental Health: the overspend of £0.6 million was largely predicted as it is driven by medical locum costs required.
- Prescribing services: an underspend of £0.4 million driven by unanticipated levels of national rebates totalling £1.2 million significantly improved the position against budget.

Expenditure	2019-20 Budget (£m)	2019-20 FRP (£m)	2019-20 Actual over/ (under) spend (£m)	Over/ (under) spend against budget (£m)
Core	0.5	0.2	0.5	0.0
Other Hosted	0.0	(0.1)	(0.4)	(0.4)
Prescribing	0.8	0.3	(0.4)	(1.2)
General medical services	0.0	0.1	0.0	0.0
IMPH	0.6	0.7	0.6	0.0
Health	1.8	1.3	0.3	(1.5)
Social Care	2.4	2.1	1.5	(0.9)
Total	4.2	3.3	1.8	(2.4)

Source: 29 May 2020 – 2019/20 Financial Position report to the Board

Comprehensive income and expenditure statement

As noted previously, NHS Tayside assigns some services that are devolved to an IJB (“hosted services”), rather than split it across the three IJBs for which it partners. This results in differences between the budget that management and members receive, which show the hosted services the IJB are responsible for, and the comprehensive income and expenditure statement (“CIES”). The two therefore are not directly comparable, and the hosted services explain the significant differences between the two. The CIES includes the utilisation of reserves in order to achieve the year end position.

Financial position (continued)

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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 directly for the services.

In total in the year there was a £18.3 million payment from NHS Tayside to PKC, this is included in Note 8: Related Party Transactions. This relates to funding NHS Tayside receives being redirected to Perth and Kinross Council for delivery of some social care services.

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 related parties note details this gross cost of providing services, and gross income received from partners.

Balance sheet

The £1.2 million debtors balance at the year end decreased as a result of overspends and the use reserves to support delivery of services. IJB 'cash' is held by the partner organisations due to the IJB not having a bank account, leading to a creditor to the IJB in the partners' Balance sheet. The full debtor balance is with NHS Tayside, and is expected to be used for the purpose of supporting health and social care services.

Balance sheet	2019-20 £000	2018-19 £000
Short term debtors	1,159	2,470
Net assets	1,159	2,470
Usable reserve : General fund	(1,159)	(2,470)
Total reserves	(1,159)	(2,470)

Source: Annual accounts 2019-20

Audit conclusions

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Audit opinion

Following approval of the annual accounts by the IJB Board, we intend to issue an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2020, and of the surplus for the year then ended.

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

Financial reporting framework, legislation and other reporting requirements

The IJB is required to prepare its 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 2019-20 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. A expanded basis of preparation in respect of going concern was included 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

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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 £2.0 million for the IJB's financial statements. This equates to approximately 0.9% of cost of services expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the IJB, our performance materiality was £1.5 million. We report all misstatements greater than £100,000.

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, 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 signed complete draft financial statements were provided on 1 July 2020.

We recognise the efforts of the finance team given significant Covid-19 pressures to deliver a set of accounts with no identified misstatements to us in accordance with the normal timeframes. The finance team were retasked with additional responsibility in respect of additional financial reporting requirements, workforce planning and third party sustainability payment administration. In this context, this represents a significant achievement.

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

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Significant risk	Our Response	Audit approach
<p>Fraud risk from management override of controls*</p> <p>Professional standards (ISA 240 The Auditor's responsibilities relating to fraud in an audit of financial statements) require us to communicate the presumed fraud risk from management override of controls as a significant risk; as management is typically 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>	<ul style="list-style-type: none"> - 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 Board. - Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. - In line with our methodology, we will carry out appropriate substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the organisation's normal course of business, or are otherwise unusual. 	<p><i>Our work did not identify any control overrides, or matters that required adjustment in the annual accounts or which require to be brought to attention.</i></p>
<p>Fraud risk from income revenue recognition and expenditure (rebutted)</p> <p>Professional standards (ISA 240 and Practice Note 10 ("PN10")) Audit of financial statements of public sector bodies in the United Kingdom require us to make a rebuttable presumption that the fraud risk from revenue recognition and expenditure are significant risks.</p>	<ul style="list-style-type: none"> — The Board receives funding through requisitions to Perth and Kinross Council and NHS Tayside. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. — The Board issues directions to Perth and Kinross Council and NHS Tayside in order to direct those bodies to deliver services delegated by the Board. The Board make these directions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant. 	<p><i>Our conclusion is that income and expenditure is appropriately stated, in line with the CIPFA Code.</i></p>

We set out above the significant risks identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.



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Other focus area	Our response	Audit approach
Financing focus area		
<p>Completeness and accuracy of expenditure</p> <p>The Board receives expenditure forecasts from Perth and Kinross Council and NHS Tayside as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding requisition income is not correctly captured.</p>	<ul style="list-style-type: none"> Our substantive audit will obtain support for gross expenditure included in Perth and Kinross Council and NHS Tayside’s accounting records. We will obtain confirmations of expenditure from each of these bodies. 	<p><i>We have concluded that that expenditure is appropriately recognised.</i></p> <p><i>No exceptions were identified in respect of expenditure testing and testing of high risk expenditure journals.</i></p> <p><i>Our testing of this exercise did not identify errors in expenditure cut-off.</i></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>	<ul style="list-style-type: none"> The Board receives funding from NHS Tayside and Perth and Kinross Council, and as part of an Integration Scheme, has a risk sharing agreement with both bodies. This agreement stipulates that, from 2019-20, any overspends by the Board may be funded by NHS Tayside and Perth and Kinross Council based on each body’s proportionate contribution in the financial year, or by the body with operational responsibility as a default position. This gives the Board comfort with regards to overspends, however, there is a risk going forward regarding ongoing budget balance, specifically in the context of challenging NHS and Council budgets. We have considered the Board’s financial planning, reserves strategy, and Board’s use of reserves, concluding on the appropriateness of these in our annual audit report. See page 17 for further information regarding the financial sustainability wider scope. 	<p><i>We consider that the IJB is financially sustainable. The IJB has detailed plans in place over the medium term to consider how services will be provided in future years. These take into consideration known and expected budget pressures.</i></p>

Management reporting in financial statements

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Report	Summary observations	Audit conclusion
<p>Management commentary</p>	<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 consider the annual governance statement to ensure compliance with the Local Government finance circular 10/2020 which updated the requirements in response to the Covid-19 pandemic.</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 10/2020 and are content with the proposed report.</p>
<p>Remuneration report</p>	<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 in line with the 2014 regulations.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<p>Annual governance statement</p>	<p>The statement for 2019-20 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 considered whether the annual governance statements adequately described the changes arising in governance as a result of the Covid-19 pandemic.</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> <p>We were satisfied with the proposed disclosure over the temporary governance arrangements.</p>

Qualitative aspects and future developments

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Qualitative aspects

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

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

There were no accounting estimates identified as part of our audit.

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

Future accounting and audit developments

There are no significant future accounting or audit developments relating to the financial statements of the IJB.

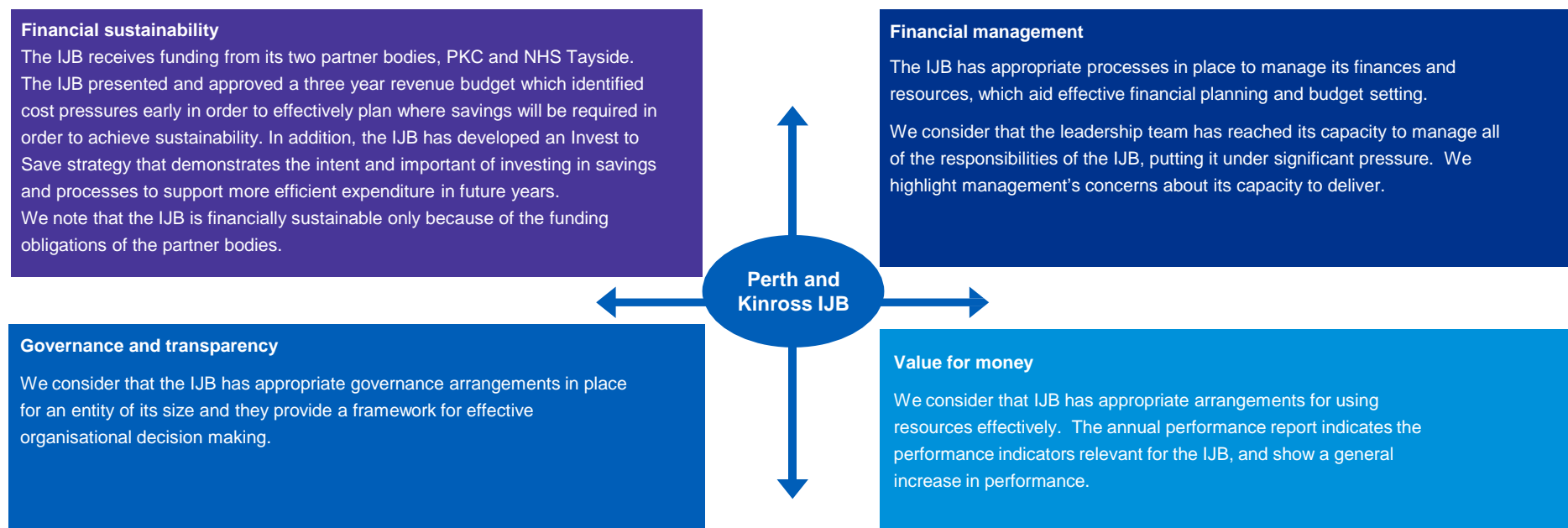
Audit dimensions introduction and conclusions

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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

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

Budget setting process

In 2018-19, we recommended management present a balanced budget for approval in advance of the financial year in order to meet legislative and best practice requirements, and this recommendation was delivered for 2020-21.

Management continue to work with the partner bodies to discuss, develop and set an achievable budget, identifying pressures in order to manage overspends and the process was significantly improved for 2020-21 (see page 17).

Budgetary reporting

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 finance updates which are taken to both the Board and the Audit and Performance Committee ("APC"). Management aims to report 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.

In line with best practice, management have presented a finance update to all held Board meetings.

Budget outturn and 2019-20 performance is discussed further on page five.

Financial recovery plan

The integration scheme requires that where overspends are identified, management prepare a deficit recovery/action plan to be approved by the Board prior to any actions implemented. Management prepared the financial recovery plan ("FRP") in order to demonstrate a response to this requirement.

The 2019-20 Finance Update provided to the IJB in September 2019 gave an indication of overspends and cost pressures. As a result, the IJB prepared and approved a Financial Recovery Plan on 27 September 2019 in order to identify areas of savings and note actions to be taken to achieve these savings. We note that the FRP projected overspends of £3.3 million, and due to unanticipated rebates in respect of prescribing, reduced the final overspend to £1.8 million.

In order to deliver and forward plan, management introduced the three year revenue budget which sought to smooth expenditure, and manage overspends and savings progress. This was considered appropriate and demonstrated clear development and mitigation of demand pressures faced by the IJB over the medium term.

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.

The Chief Financial Officer is responsible for ensuring that appropriate financial services are available to the IJB and the Chief Officer.

Financial management

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Capacity and service transformation

The section 95 officer of the IJB is the Chief Financial Officer, who has appropriate status within the IJB and access to the partner chief executive officers and Board members.

In 2018-19, we reported that the Chief Officer would review the current leadership and management arrangements to support ongoing and improved integration between the IJB and its partner bodies. We confirmed that this review had not been completed and progress is ongoing. With increasing demand on senior officers time and resources, management should undertake reviews such as this to ensure that required resources to deliver integrated services are full identified and sourced.

Recommendation three

The integrated finance function consists of the Chief Financial Officer and financial management resources transferred to Perth and Kinross Integration Joint Board by NHS Tayside and Perth and Kinross Council. In addition, NHS Tayside provide finance support for specific service areas such as Prescribing, and Primary Care. The Partnership Finance Manager provides significant support to the day to day financial management and control within the IJB. Operational management of Inpatient Mental Health formally moved to NHS Tayside early in 2020-21 under instruction from the Scottish Government

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 inpatient 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.

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 IJB's arrangements including policies and codes of conduct for council staff and elected members, whistleblowing, fraud prevention and fraud response plan.

We considered the arrangements in place for the prevention and detection of fraud to

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Covid-19 impact assessment

The worldwide Covid-19 pandemic has understandably had an impact on a wide ranging number of topics across the globe. As part of our wider scope reporting in respect of the IJB, we considered the impact on governance and financial sustainability.

As part of its response to Covid-19 pressures, the IJB participated in regular reporting to the Scottish Government, initially on a weekly basis detailing financial pressures. This covered both health and social care, being reported via NHS Tayside. Management considered this process to be robust, and challenged a number of assumptions to reasonably forecast financial impact.

The financial pressures identified included additional social care provision demand, and additional GP and prescribing costs.

The IJB also completed financial reporting on the Mobilisation plan, planning the necessary actions to prepare for the impact of the pandemic, identifying new approaches to service delivery, redeploying staff and capturing additional costs.

Management reported significant work in respect of Delayed discharges to improve the path through hospitals for patients, and developed a Community Assessment Hub at Perth Royal Infirmary to improve the number of patients being supported.

Conclusion

The IJB has not set its 2020-21 budget on a balanced basis, though we recognise the challenges faced by management and that the three year financial recovery plan does bring the IJB back to a financial balance.

Overall financial capacity is appropriate for the purposes of delivering services and day to day management. However, there remains no specific strategic planning capacity within the IJB to inform and lead strategic development.

Financial sustainability

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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

In 2019-20, management began the process of setting a full three year revenue budget which covered 2019-20, 2020-21 and 2021-22. This was updated in 2019-20 to include 2021-22 and significantly improved medium-term financial planning. The three year revenue budget for Health and Social Care was approved on 31 March 2020 and achieves a financial balance over the three years.

	Year 1: 2020-21	Year 2:2021 -22	Year 3: 2022-2023
	Shortfall/ (Surplus) £m	Shortfall/ (Surplus) £m	Shortfall/ (Surplus) £m
Health	1.8	(0.4)	(1.4)
Social Care	0.0	0.7	0.0
Total	1.8	0.3	(1.4)

2020-21 budget process

Management invested significant resource in working with partners to prepare its three year revenue budget to achieve financial balance and this is a marked improvement achieving best practice. This was ultimately accepted by Perth and Kinross Council, but not NHS Tayside and is reflected accordingly in respective partners budget settlements for 2020-21.

Management presented an unbalanced but comprehensive budget to the Board for approval on 31 March 2020, which due to restrictions was undertaken via email submission. The members approved the budget on an interim basis.

Due to lockdown restrictions this special meeting was held via email submission. It is generally accepted that this option was not best practice however it was not unreasonable given the circumstances and we are not aware of clear contraventions of the IJB's regulations.

Reserves strategy

The IJB approved a reserves policy in March 2017 which sets out the statutory and regulatory framework for reserves, the operation of these reserves and the role of the Chief Financial Officer in determining the adequacy of reserves held by the IJB. Management aspires to retain a general fund reserve of 2% of gross expenditure, or £4.1 million. The IJB had reserves of £1.2 million at the year end, or 0.5%. This is below the target level, and given the level of overspend anticipated as a result of Covid-19, management face a significant challenge to meet this target in 2020-21.

Management anticipates using the carried forward reserves for a number of projects, including primary care improvement, primary care transformation and the partnership transformation fund.

We discussed with management how the reserves strategy will be delivered. There is consideration of the need to achieve reserves of 2%, however, in conjunction with pressures identified in the three year plan, the achievement of this is accepted as challenging. There is no allowance in the three year plan that supports the achievement of the reserves strategy.

Recommendation one

Financial sustainability (continued)

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Risk sharing

The integration scheme sets out the process to be followed should the IJB overspend against the agreed budget. The Chief Officer and Chief Financial Officer are 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 (2017-18 and 2018-19) any overspend is met by the partner with operational responsibility.

From the third year (2019-20) 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 2020-21, we understand that there has been limited discussion between relevant partners in respect of the approach to be taken and there is no formal documentation of this arrangement. We note that this has been partially delayed due to Covid-19, however the deadline reported by management in 2018-19 would have been missed.

Management confirmed that the integration scheme will be reviewed by the partners which may result in an alternative risk sharing arrangements being agreed, however, we reaffirm the importance of a proportionate arrangement to encourage integrated delivery and as a minimum recommend formal agreement of the approach to risk sharing.

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 (pending central KPMG review)

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. 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.

Management consider it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts, supported by factors including:

- The regulations governing the IJB include reference to the entity following appropriate accounting practice, which is the 2019-20 Code. This code states that the entity shall prepare accounts on a going concern basis.
- The Integration Scheme provides that all overspends shall ultimately be met by the partner bodies. Given that the positions of NHS Tayside and Perth and Kinross Council are also going concerns, management believe that the partner bodies have sufficient ability to meet any liability that falls due.

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.

Savings

The IJB is required to make efficiency savings to maintain financial balance. In 2019-20, the required savings identified in the budget were £2.63 million (2.7%). The actual savings achieved was £2.56 million, the only shortfall due to one project not delivering the savings intended, totalling £74,000.

It is noted as part of the impact of Covid-19 on 2020-21, £1.3 million of savings are not expected to be met as included in the Covid-19 September update to the Board.

Financial sustainability (continued)

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Financial sustainability

Management have provided two updates to Board members during the pandemic, with a further update to be provided at the end of September. Reporting to members was in addition to the regular financial assessments submitted to the Scottish Government, which covered both Health and Social Care elements via NHS Tayside.

In July 2020, the Chief Officer reported estimated additional costs totalling £9.4 million as summarised below:

20/21 Projection	£m
Third Party Care Providers Additional Costs	4.9
Slippage in savings delivery	1.4
Loss of Income	0.5
Supporting flow-additional inpatient bed capacity	0.5
Additional Payments to GP Practices	0.5
Additional staffing costs	0.4
Supporting flow- additional care home capacity	0.2
Care Home Additional Responsibilities	0.2
Mental Health & Drug & Alcohol Support	0.2
Service Management Capacity and Communications	0.2
Other equipment, IT, property and PPE	0.2
Supporting Flow – Discharge Capacity	0.1
Additional Payments Pharmacists	0.1
Increase in GP Prescribing	0.1
Additional Care at Home	0.1
Offsetting Cost Reductions	(0.2)
Total	9.4

The costs in Health service delivery will be met by the Scottish Government with additional funding expected later in the year. Perth and Kinross Council has incorporated associated financial pressures as part of the Council's financial recovery.

Governance arrangements

As part of its response to the Covid-19 lockdown, there were some changes to the IJB's governance structure.

The Chief Officer was a member of both partners' Gold Command structure, which saw senior officers having authority to make decisions in response to a changing environment. Particularly at the council, this included the use of emergency powers which were subsequently ratified by councillors.

The IJB have resumed virtual meetings to ensure Board members have oversight of decisions made.

Several meetings were carried out through written submission, particularly the approval of the budget on 31 March 2020. Given the proximity of the meeting to the First Minister's imposing of lockdown, and to the 31 March year end, management elected to continue with the meeting as part of its drive to respond to our recommendation on preparing a balanced budget for approval before 31 March in line with best practice

Conclusion

The IJB faces ongoing financial pressures in respect of Covid-19 in particular. Overspends are forecast in both health and social care budgets and the integration scheme may require both partners to contribute further to the IJB. We remain satisfied that the IJB is financially sustainable in the short term as a result of the ongoing commitment of the two 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 but the approach to risk sharing should be agreed and implemented consistently.

Governance and transparency

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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 for the purpose of presenting our findings and statutory reports. From attendance at these meetings, 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 policies and arrangements are in place, and an improvement action was identified for any high or medium risk findings.

During June 2020, a working group of Board members and officers met to bring a review of the governance structure and Standing orders. The working group agreed to develop key themes, and present to the IJB by November 2020. This work remains ongoing.

Membership

We note that since inception of the IJB there has been significant change in membership. We included this as a low risk area in the 2017-18 report, and membership changes have continued, albeit at a slower rate, throughout 2019-20. Only three members have continued in office during 2019-20, with five new members.

Member instability affects the Board's ability (through understanding and experience) and capacity, to fully scrutinise, challenge and support management. It also inherently takes time for members to fully understand the IJB and its activities.

Management ensures that new members are appropriately trained, as highlighted on page 16. Although we have not identified deficiencies in member scrutiny and challenge during the year, it is clear that members are aware that their role is challenging and they have a steep learning curve to ensure that they can fully deliver on their role. The IJB is forecasting a deficit position for 2020-21 and is facing significant cost and demand pressures moving forward. Members will need to make important decisions moving forward around the ambitions of the Strategic Commissioning Plan, in particular the future shape and scale of service delivery. In this context, member continuity and experience is important.

Recommendation four

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 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. From 1 April 2019, the internal audit function has been carried out by PKC's internal auditors, with the Chief Internal Auditor being selected from PKC. In July 2020, the Board approved the re-appointment of the Chief Internal Auditor.

Internal audit provides the IJB and section 95 officer with independent assurance on the IJB's overall risk management, internal control and corporate governance processes.

The Chief Internal Auditor concluded in the 2019-20 annual audit report that sufficient work was completed during the year, to enable them to conclude that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system. We concurred with these findings and found no deficiencies.

Governance and transparency (continued)

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Risk management

In 2016, the three IJBs within the Tayside area agreed a risk management strategy, in conjunction with their respective partner bodies. A strategic risk management framework and risk register were developed, which were considered at the Audit and Performance Committee in November 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 Audit and Performance Committee 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 on a regular basis.

System of 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.

Audit Scotland area of focus: Fraud and corruption in procurement

As part of our audit strategy, it was reported that work would be carried out in respect of fraud and corruption within procurement, which would review the IJB's processes to manage and manage the risk from its partner bodies.

We agreed with Management in July 2020 that in order to ensure best use of resources, this review would be deferred to 2020-21 as permissible in Audit Scotland's 2019-20 Planning Guidance.

We will therefore provide our conclusions and findings as part of the September 2021 annual audit report.

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.

The arrangements in place to investigate and prevent fraud are appropriate.

Membership of the IJB remains unstable. Further changes to membership to voting members could significantly impair the IJB's ability to operate effectively.

Value for money

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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.

Strategic and corporate planning

The Strategic Commissioning Plans Guidance published by the Scottish Government in 2015 sets out an expectation that developing and updating strategic plans should be part of an iterative, cyclical process. The IJB produced and approved a refreshed Strategic Commissioning Plan in 2019 that covers the period 2019-2022.

The plan aligns the Scottish Government's nine national outcomes against the objectives of the IJB. The plan also highlights what residents of Perth and Kinross can expect from the refreshed plan.

The plan includes clear explanation for the overarching goal and planned solutions to deliver against the national outcomes.

Conclusion

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

As noted on page 17, the workforce plan is overdue and while service level consideration occurs, preparation of a corporate view has not commenced.

The Chief Officer plans to address key gaps in corporate capacity and we consider this is important in order to ensure the effectiveness of the IJB and that officers are able to form strategic and corporate approaches for consideration by the IJB members.

Appendices

Appendix one

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; and - Suitability of arrangements for preparing and publishing statutory performance information 	We have set our conclusions over the audit dimensions on page 14.

Auditor independence

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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.

Total fees charged by us for the period ending 31 March 2020 can be analysed as follows:	2019-20 £	2018-19 £
Audit of IJB financial statements	20,950	20,700
Total audit services	20,950	20,700
Non-audit services	-	-
Total	20,950	20,700

There were no non-audit services provided during the year to 31 March 2020.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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








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








Yours faithfully,

KPMG LLP

Appendix three

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 2020.
Adjusted audit differences	 There were no adjusted audit differences.
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	 There were no modifications to the auditor's report.
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 ten and 11) from the audit were discussed with management.

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Appendix four

Action plan

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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. Achievement of reserves strategy (page 17)		Grade two
The budget should reflect the intentions of management to build reserves in line with its reserves strategy, which will also require significant discussion and planning with its partner bodies.	We recommend the IJB and its partners work towards developing a plan to achieve the reserves outlined in its strategy.	Management response: Agreed Responsible officer: Chief Financial Officer Implementation date: 31 st March 2021

Action plan (continued)

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Finding(s) and risk(s)	Recommendation	Agreed management actions
2. Risk sharing agreement (page 18)		Grade one
<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 2019-20, there has not yet been any formal agreement between partners on how any overspend may be shared and we understand discussions have been limited.</p> <p>We consider best practice to be a formal documentation of the agreement, which will assist in the partners approach to budgeting.</p> <p>It is generally recognised that proportionate risk sharing facilitates effective integration.</p> <p>This recommendation is unchanged from 2018-19, but we note that there is a planned refresh of the integration scheme which may result in a change in respect of risk sharing.</p>	<p>We recommend that partners are requested formally agree the approach for overspends on an annual basis in advance of the financial year on which agreement is sought.</p> <p>Consistency of approach, and consideration of third party guidance should be included as part of the agreement.</p>	<p>Management response: Agreed. The Chief Officer will formally request that the review of IJB's Risk Sharing Arrangements is a formal part of the imminent review of the IJB's Integration Scheme.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: 31st March 2021</p>
3. Strategic and corporate planning capacity (pages 17 & 21)		Grade one
<p>Although management understand the importance of having a strategic plan in place, there have been significant delays to the preparation of the plan mainly due to lack of capacity within the organisation.</p> <p>We also note that the IJB is currently developing a workforce plan. The revised deadline was 31 March 2019 having been deferred on several occasions. However, from discussion with management in September 2020, this continues to not be achieved.</p> <p>Continued changes in IJB membership reduce the level of experience and ability of members to adequately consider, challenge and support management proposals. In this context, the importance of officer capacity is enhanced.</p> <p>In addition, it was indicated as part of our 2018-19 work that the Chief Officer would undertake a review of current leadership and management arrangements in 2019, however, this has also been delayed. This recommendation is unchanged from 2018-19.</p>	<p>It is recommended that management:</p> <ul style="list-style-type: none"> • completes its planned review of current leadership and management arrangements to ensure sufficient strategic planning capacity.; and • prepares a workforce plan. 	<p>Management response: Agreed. The wider organisational restructure has been delayed due to the global pandemic. However, the demands of the pandemic have also further highlighted the need for an enhanced corporate and strategic planning capacity. We are actively considering how we address and resource this, without awaiting a full restructure.</p> <p>The IJB is undertaking a review of the current position to develop a 3 year workforce plan which will be aligned with our Strategic Commissioning and mobilisation Plans. An initial draft will be completed by 14th September and will underpin our workforce plan which will be submitted to IJB in February 2021.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: 31st March 2021</p>

Action plan (continued)

DRAFT

Finding(s) and risk(s)	Recommendation	Agreed management actions
4. Membership of the Board (page 18)		Grade one
<p>The appointment of voting members is the responsibility of the partner bodies. In our previous two annual audit reports, we have commented on significant changes in voting members, and the importance of maintaining voting members on the Board who build up experience in respect of the IJB. We identified that only three members of the Board had held positions continuously throughout the year.</p> <p>This significantly reduces the ability of voting members to challenge, scrutinise and make long-term consistent planning and strategic decisions. We also consider that the resources utilised by management to train new voting members are effective, but that delivery of induction training on numerous occasions throughout the year is not sustainable.</p>	<p>We recommend that management discuss the appointment of voting members with partners, in order to enhance consistency of membership.</p> <p>This will support effective integration of services which is the ultimate goal of the IJB.</p>	<p>Management response: Agreed.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: 31st March 2020</p>

Prior year recommendations

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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 2018-19 final audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
Final	3	1	-	2

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. Budget Setting	Grade two		
<p>The Core Health and Social Care budget for 2019-20 was approved on 15 February 2019, prior to the start of the following financial year as required. The GP Prescribing and Other Hosted Services budget was approved in June 2019, three months after the start of the financial year. At the time of this report, the Adult Mental Health budget has yet to be approved, for it to be discussed at the Board meeting in September 2019. This is six months for the start of the financial year.</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 all budgets are discussed and approved prior to the start of the financial year.</p>	<p>Management response: Agreed</p> <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: 31 March 2020</p>	<p>Implemented</p> <p>We recognised the significant achievement by management to present a comprehensive three year budget to the Board on 31 March 2020.</p>

Prior year recommendations (continued)

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Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
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 2019-20, there has not yet been any agreement between partners on how any overspend may be shared and we understand discussions have been limited.</p> <p>We consider best practice to be a formal documentation of the agreement, which will assist in the partners approach to budgeting.</p> <p>It is generally recognised that proportionate risk sharing facilitates effective integration.</p>	<p>We recommend that partners are requested formally agree the approach for overspends on an annual basis in advance of the financial year on which agreement is sought.</p> <p>Consistency of approach, and consideration of third party guidance should be included as part of the agreement.</p>	<p>Management response: Agreed.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: 31 March 2019</p>	<p>Not implemented</p> <p>No formally documented position has been reached.</p> <p>Management response:</p> <p>Auditor response:</p> <p>We will continue to review this action point, and will report on progress as part of our 2020-21 annual audit report.</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 2020</p>	<p>Not implemented</p> <p>Through reviewing the risk register, it was noted that the workforce plan has not been completed yet.</p> <p>Management response:</p> <p>Auditor response:</p> <p>We will continue to review this action point, and will report on progress as part of our 2020-21 annual audit report.</p>



The contacts at KPMG in connection with this report are:

Michael Wilkie

Director

Tel: 0141 300 5890

michael.wilkie@kpmg.co.uk

Christopher Windeatt

Assistant Manager

Tel: 0131 451 7738

christopher.windeatt@kpmg.co.uk

Megan Fenwick

Senior Audit Associate

Tel: 0141 228 4258

megan.fenwick@kpmg.co.uk



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