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Aberdeen City Health & Social Care Partnership  
*A caring partnership*

To: Members of the Audit and Performance Systems Committee.

Town House,  
ABERDEEN, 8 June 2018.

## **AUDIT AND PERFORMANCE SYSTEMS COMMITTEE**

The undernoted items are circulated in connection with the meeting of the **AUDIT AND PERFORMANCE SYSTEMS COMMITTEE** to be held in the Health Village on **TUESDAY, 12 JUNE 2018 at 3.00 pm.**

FRASER BELL  
CHIEF OFFICER - GOVERNANCE

### **BUSINESS**

#### **URGENT BUSINESS**

#### **FINANCE**

- 5 Annual Audited Accounts (Pages 3 - 60)
- 6 External Audit Report (ISA 260) (Pages 61 - 82)

Should you require any further information about this agenda, please contact Iain Robertson, tel 01224 522869 or email [iairobertson@aberdeencity.gov.uk](mailto:iairobertson@aberdeencity.gov.uk)

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## Audit and Performance Systems Committee

<b>Report Title</b>	Audited Final Accounts 2017/18
<b>Lead Officer</b>	Alex Stephen, Chief Finance Officer
<b>Report Author (Job Title, Organisation)</b>	Alex Stephen, Chief Finance Officer
<b>Report Number</b>	HSCP/18/013
<b>Date of Report</b>	21.05.2018
<b>Date of Meeting</b>	12.06.2018

### 1: Purpose of the Report

The Integration Joint Board reviewed and considered the unaudited final accounts at its meeting on the 22<sup>nd</sup> of May 2018.

The purpose of this report is to allow the Audit & Performance Systems (APS) Committee to consider and approve the audited final accounts for 2017/18.

The APS Committee has provision within its Terms of Reference 'to consider and approve annual financial accounts and related matters'.

### 2: Summary of Key Information

This is the second time that a full set of accounts have been prepared for the Integration Joint Board (IJB).

A great deal of work has been undertaken at a national level to agree on a proposed approach to the Integration Joint Board Accounts. Even then there will be changes in format and the disclosures contained in the accounts based on local circumstances. However, the major disclosures and format is based on a template commissioned by the Scottish Government with the Chartered Institute of Public Finance and Accountancy (CIPFA).

The accounts are based the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code) and follow the format of the accounts used by local authorities as the IJB is recognised as a local government body, under Part VII of the Local Government (Scotland) Act 1973.



## Audit and Performance Systems Committee

The audit of the accounts took place the week beginning the 21<sup>st</sup> of May 2018. The final audited accounts have been brought back to the APS Committee for approval at this meeting. During the audit process some minor changes were made to the accounts, largely presentational changes in relation to the management commentary.

Aberdeen City Council have embarked on a process to shorten the timescale for closing the final accounts. As the IJB accounts feed into the Aberdeen City Accounts, the IJB have been collated quicker than in 2016/17. The intention is that the Aberdeen City Council accounts, including the group accounts, will be drafted, audited and approved by 30 June at the latest.

The accounts follow the following format:

**Management Commentary** - Explains the performance over the last financial year and highlights some of the potential risks during the next financial year.

**Remuneration Note** – contains details of the pay and pension benefits accrued by the senior officers of the IJB during 2017/18.

**Annual Governance Statement** – Highlights the Governance Framework in place and describes performance and improvements against the local code of governance. As was discussed at the last APS Committee, this now contains the assurances from Aberdeen City Council, NHS Grampian and the Internal Auditors. Note it also contains an additional disclosure in relation to the Kingsmead Nursing Home.

**Financial Statements** – contains details of the financial transactions, including the Income & Expenditure Account, Balance Sheet and Movement in Reserves Statement.

**Notes to the Accounts** – including the financial policies used by the IJB over this period and the relevant disclosures required through the code.

As can be seen through the accounts at the end of the financial year the IJB has £8,306,254 in its useable reserve at the end of the financial year, which has largely been allocated by the IJB for specific integration and change projects.

### Appendices



## Audit and Performance Systems Committee

- A) Final Audited Accounts 2017/18  
B) Letter of representation

### 3: Equalities, Financial, Workforce and Other Implications

**Equalities** – There are no equalities implications arising from this report.

**Financial** – The financial implications are highlighted throughout the report and in the appendix.

**Workforce** – There are no workforce implications directly arising from this report.

### 4: Management of Risk

#### Identified risk(s) and link to strategic risk register:

- There is a risk of financial failure, that demand outstrips budget and IJB cannot deliver on priorities, statutory work, and project an overspend.
- There is a risk that the governance arrangements between the IJB and its partner organisations (ACC and NHSG) are not robust enough to provide necessary assurance within the current assessment framework – leading to duplication of effort and poor relationships.
- There is a risk of reputational damage to the IJB and its partner organisations resulting from complexity of function, delegation and delivery of services across health and social care.
- There is a risk of failure to deliver transformation at a pace or scale required by the demographic and financial pressures in the system.

**How might the content of this report impact or mitigate the known risks:** The audited accounts are an important document for the IJB, demonstrating financial performance over the year and are independently audited. Recommendations could be received from the external auditors which impact on any of the strategic risks highlighted above.



## Audit and Performance Systems Committee

### 5: Recommendations

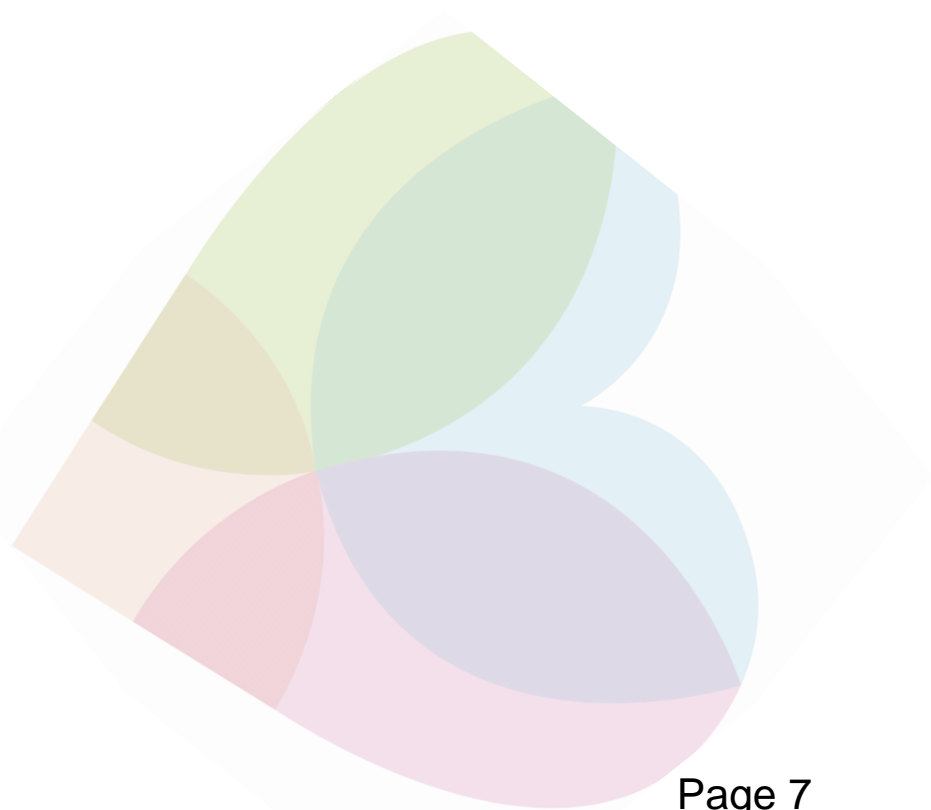
It is recommended that the Audit & Performance Systems Committee

- 1) Consider and agree the Integration Joint Board's Unaudited Accounts for 2017/18, as attached at appendix A.
- 2) Instruct Officers to submit the approved audited accounts to NHS Grampian and Aberdeen City Council.
- 3) Instruct the Chief Finance Officer to sign the representation letter, as attached at appendix B.



# **Aberdeen City Integration Joint Board**

## **Audited Annual Accounts 2017/18**



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## **Management Commentary**

### **The Role and Remit of the Integration Joint Board (“IJB”)**

Aberdeen is the third largest city in Scotland and provides Scotland with 15% of its Gross Added Value. Much of this value has come from the oil and gas industry, although since the oil price reduction in 2014 the local economy has suffered. Aberdeen has a population estimated in 2014 at 228,990 and eight of its 37 data zones are recognised as deprived in the Scottish Index of Multiple Deprivation rankings.

In terms of health and social care the demand for services continues to rise each year. The over-65s account for 15% of the total population of Aberdeen and this percentage is forecast to increase to 18% over the next 20 years.

Prior to the establishment of the IJB, community health services were delivered by NHS Grampian (through the Community Health Partnership) and adult social care services were delivered by Aberdeen City Council through the Social Work Department.

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed by the Scottish Parliament on 25 February 2014 and received Royal Assent in April 2014. The Act provides a framework for the integration of adult health and social care services in order to improve the quality and consistency of services to patients, carers, service users and their families; to provide seamless, joined-up quality health and social care services in order to care for people in their own homes or a homely setting where it is safe to do so; and to ensure resources are used effectively and efficiently to deliver services that meet the increasing number of people with longer-term and often complex needs, many of whom are older.

Aberdeen City Council and NHS Grampian took the decision that, in order to comply with their obligations as a result of the 2014 Act, the model for integration of health and social care services in Aberdeen City would be the Body Corporate model, also known as an Integration Joint Board. Under this model, the health board and local authority delegate the responsibility for the strategic planning and delivery of health and adult social care services to the Integration Joint Board. The Aberdeen City Integration Joint Board was established by Scottish Ministers as a Body Corporate on 6 February 2017 with full delegation of services taking effect from 1 April 2016.

The Integration Scheme defines the services that have been delegated by the health board and local authority to the Aberdeen City Integration Joint Board. The Act indicates that the delegation of some services is mandatory, while for others a discretionary approach can be taken depending on local circumstances. For some of the delegated health services it was not practical to split the services across the three integration joint boards in the Grampian area. These services are still delegated, but classed as ‘hosted’, which means the costs and budgets are shared based on estimated usage across the three integration joint boards. These services are managed and led by one lead integration joint board on behalf of the other two boards. A full list of the services delegated is contained in the appendices of the Integration Scheme, along with the name of the lead integration joint board in the case of the hosted services.

The IJB is the governing body for the delegated health and social care services. The operational delivery of these services is undertaken by the Aberdeen City Health & Social Care Partnership which is an overarching term to describe the services delegated to the IJB and delivered by Aberdeen City Council, NHS Grampian, voluntary organisations, care providers and the third sector.

### **The IJB's Operations for the Year**

During its second full year of operation good progress has been made in terms of delivery of the strategic plan. The focus of this year has been to build on the progress delivered in the first year of operation and start to deliver the transformation projects which the IJB had previously approved.

The IJB also agreed during the 2017/18 budget process that six priorities be delivered by the end of the financial year. These priority projects have now largely been delivered and are documented below:

- Develop business case for acute care at home;
- Establish link workers in city;
- Localities shadow operation\notional budgets;
- Continue work on carers strategy;
- Develop commissioning strategy and move forward market facilitation; and
- Testing the Buurtzorg model.

Over the last financial year, the IJB has:

- approved a transformation plan, a strategic commissioning implementation plan, a carers strategy and started the process of defining its vision for the future delivery of primary care services in Aberdeen;
- published its first annual report;
- approved a medium-term financial strategy providing the IJB with information on the budget pressures likely to be faced over the next five financial years and setting out the budget saving themes which the IJB will use to close the estimated funding gap;
- operated two sub-committees (Audit and Performance Systems Committee and Clinical and Care Governance Committee);
- moved forward its three major transformation projects;
- hosted an annual conference and awards ceremony;
- further developed its performance management and risk frameworks, and reviewed and revised its Board Assurance Escalation Framework;
- held several workshops to inform IJB members of the services for which the IJB has strategic responsibility; and
- implemented a new operational management structure and defined the management structure in each locality and set a timeline for implementation of locality budget.

Good progress has been made in this period with a significant level of spend allocated towards transformation projects during 2017-18. Progress on transformation work had previously been slower than might have been anticipated due to a number of factors including the complexity of having to work through the governance systems of the

three organisations (NHS Grampian, Aberdeen City Council and the Integration Joint Board). However, during 2017-18 it was possible to increase the pace of transformation following the recruitment to key project management positions in the strategy and transformation team.

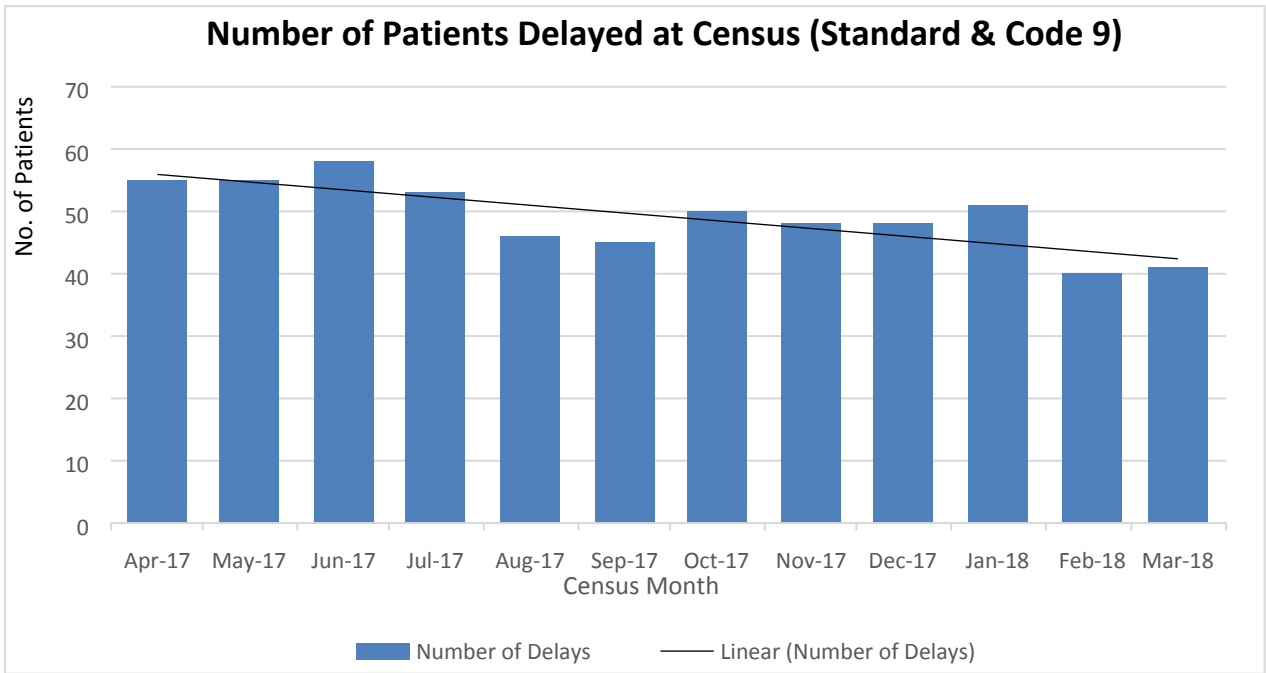
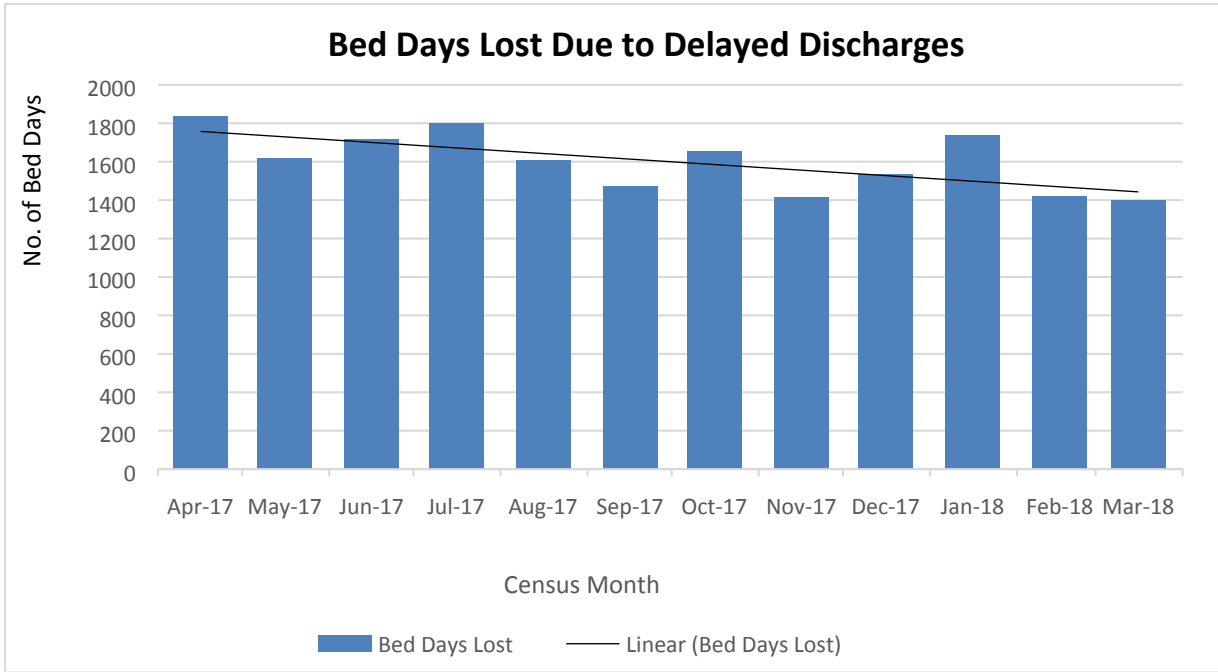
Our three key major transformation projects are now either operational or in the very final stages of being implemented. Further information on our three major transformation projects is highlighted below:

- Our Acute Care @ Home project seeks to allow patients to receive certain types of care previously provided in a large hospital setting in their own home. The team is now largely recruited to and started to care for patients in March 2018;
- Our Community Link Workers project will provide twenty link workers in the city to support our colleagues in primary care by signposting and patients to access community support and resources which will lead to improved outcomes for patients. A tender process was undertaken and the contract for providing this service was awarded to the Scottish Association for Mental Health. The link workers will start work early in the new financial year; and
- Our Integrated Neighbourhood Care Aberdeen (INCA) teams are recruited to and have started to deliver services. These teams are based on the Buurtzorg model of community nursing and care at home used in Holland, where care is provided by small, self-managing teams in a given neighbourhood.

A number of the services delegated to the IJB continue to experience difficulties recruiting staff. The payment of the Scottish Living Wage has helped in recruiting staff for social care services and the downturn in the oil industry has improved recruitment for some positions. However, there are still issues in recruiting staff to qualified positions such as social workers, nurses, allied health professionals and general practitioners in the primary care setting.

One of the key aspects of the 2014 Act and strategic plan is the formation of localities in which health and social care services will be delivered. In Aberdeen City it was agreed to have four localities and a locality leadership group has been established in each area. These groups are working well and continue to make good progress. Four Head of Locality posts have been established and are now recruited to in order to support the delivery of locality working. The management structure below the heads of locality is now scoped and is in the process of being implemented.

The IJB has been working hard to reduce the number of Aberdeen City residents who are ready to be sent home from hospital but have been delayed from doing so. The term commonly used for these individuals is a “delayed discharge”, and people can be delayed for varied reasons, ranging from social care provision through to issues with equipment, adaptations and even transport. The IJB has presided over a notable improvement in respect of both the numbers of individuals delayed in hospital, alongside the overall bed days lost to delayed discharges. This can be seen from the performance information below:



A 'delayed discharge' is a hospital inpatient who is clinically ready for discharge from inpatient hospital care and who continues to occupy a hospital bed beyond the ready for discharge date. Number of patients delayed is a count of patients delayed as at the census snap shot date, which since July 2016 has been the last Thursday of the month. 'Bed Days lost due to delayed discharge' is the count of hospital bed days that are occupied by delayed discharge patients. This has been calculated based on all patients recorded as a delayed discharge in the reporting month and a sum of the bed

days occupied while that patient was delayed in that month. Delayed Discharge data is collated as a requirement for a Government return. The data source for delayed discharge data is EDISON - which is a standalone system that has been in place for a number of years. From June 2018 this data will be recorded on NHS Grampian's Trakcare patient management system.

The IJB has received budget monitoring reports each quarter as defined in the integration scheme. The Audit and Performance Systems Committee has also been reviewing the budget monitoring information on a regular basis. The outturn for the financial year against the forecast position reported for December is shown below.

	<b>Forecast 31 December 2017 £'000</b>	<b>Outturn 31 March 2018 £'000</b>
<b>Budget</b>		
<b>Total from Reserves</b>	<b>1,437</b>	<b>2,111</b>
<b>Integration and Change Fund and Primary Care Fund</b>	<b>6,730</b>	<b>6,057</b>
<b>Risk and Equipment Fund</b>	<b>2,250</b>	<b>2,250</b>

#### **The IJB's Position at 31 March 2018**

The accounts for the year ended 31 March 2018 show a usable reserves position of £8,306,965 (£10,417,474 2016/17). This is largely due to additional funding received in 2016/17 from the Scottish Government which the IJB is using on integration and change projects. A significant element of these funds has been committed and used in 2017/18. All of the recurring funding has now been allocated, however, there still remains some one-off funding which was carried forward from last financial year. The IJB agreed a reserves strategy and during the 2017/18 budget process agreed to hold back as earmarked reserves £2.5 million as a risk fund. The reserves position was confirmed during the 2018/19 budget process.

The majority of public sector organisations are facing challenges balancing their budgets in a context of increasing demand and costs, while the funding available is reducing in real terms. The 2018/19 budget was agreed on 27 March 2018 and included £4 million of budget reductions.

The major risk in terms of funding to the Integration Joint Board is the level of funding delegated from the Council and NHS and whether this is sufficient to sustain future service delivery. There is also a risk of additional funding being ring-fenced for specific priorities and policies, which means introducing new projects and initiatives at a time when financial pressure is being faced on mainstream budgets.

The IJB has made arrangements with social care providers to allow the Scottish Living Wage to be paid in 2017/18. Local negotiations will be undertaken with social care providers to provide funding to pay the Scottish Living Wage of £8.75 per hour from 1 May 2018. This was possible due to additional funding being made available. Should additional funding not be available in future years, it will be difficult for the IJB to fund

any future increases in the Scottish Living Wage given the financial pressures being experienced across its services and the level of increase in Scottish Living Wage year on year.

Demand is expected to continue to rise given the increase in the number of over-65s forecast. At the same time the complexity of the care required is increasing due to improvements in medicine and the increased average life expectancy evidenced over the last few decades. Also, there are greater expectations being placed on our services by clients and this, along with expectations from our other stakeholders, continues to drive performance on targets such as waiting times.

The implementation of the carers strategy in 2018/19 will expose the IJB to financial risk, as although additional resources will be provided and the calculation of the adequacy of these resources has been assessed through a comprehensive process at a national level, there are still concerns over the potential level of spend. In particular the demand for these services, whilst influenced by the local eligibility criteria, may be difficult to predict and manage. However, the implementation of this strategy will support carers to help them maintain their own health and wellbeing, as well as that of the person they care for.

### **The IJB's Strategy and Business Model**

The IJB's Strategic Plan for 2016-19 sets out how the National Health and Wellbeing Outcomes will be achieved. To achieve our desired outcomes, the strategic priorities for the next three years are:

- develop a consistent person-centred approach that promotes and protects the human rights of every individual and which enables our citizens to have opportunities to maintain their wellbeing and take a full and active role in their local community;
- support and improve the health, wellbeing and quality of life of our local population;
- promote and support self-management and independence for people for as long as reasonably possible;
- value and support those who are unpaid carers to become equal partners in the planning and delivery of services, to look after their own health and to have a quality of life outside the caring role if so desired;
- contribute to a reduction in health inequalities and the inequalities in the wider social conditions that affect our health and wellbeing;
- strengthen existing community assets and resources that can help local people with their needs as they perceive them and make it easier for people to contribute to helping others in their communities;
- support staff to deliver high quality services that have a positive impact on personal experiences and outcomes.

During the 2018/19 the IJB will seek to:

- fully implement the first phase of acute care @ home and start to develop plans for the second phase;
- approve a primary care improvement plan and test new delivery models linked to our primary care strategy;
- further establish and embrace locality working;
- implement and monitor the carers strategy;
- develop a public health strategy for Aberdeen City IJB;
- begin to evaluate the benefits of the INCA teams and, providing the anticipated benefits are realised, develop a roll-out plan across the city; and
- further develop our evaluation programme for our transformation projects.

The IJB strategic plan will be updated during 2018/19 picking up on the trends and cost pressures identified in the first two years of operation. In a similar method to the creation of the current strategic plan, an extensive consultation process will be undertaken with interested and affected groups.

The IJB provides strategic direction to the partners (Aberdeen City Council and NHS Grampian) by approving formal directions to the partner organisations on the changes that it would like made to operational service delivery in order to achieve the priorities included in the strategic plan.

The directions are then passed to the Chief Executives of the partner organisations who in turn pass these on to officers for implementation.

### **Key Risks and Uncertainties**

The key strategic risks, as contained in the Strategic Risk Register, along with an assessment of level of risk facing the IJB are as indicated below:

- There is a risk of significant market failure in Aberdeen City– High
- There is a risk of financial failure, that for example, demand outstrips the budget and IJB cannot deliver on priorities, statutory work, and project an overspend – High
- Failure of the IJB to function and make decisions in a timely manner –Low
- There is a risk that the outcomes expected from hosted services are not delivered and that the IJB does not identify non-performance through its systems. This risk relates to services that Aberdeen IJB hosts on behalf of Moray and Aberdeenshire, and those hosted by those IJBs and delivered on behalf of Aberdeen City IJB – Medium
- There is a risk that the governance arrangements between the IJB and its partner organisations (Aberdeen City Council and NHS Grampian) are not robust enough to provide necessary assurance within the current assessment framework – leading to duplication of effort and poor relationships – Medium
- There is a risk that services provided by ACC and NHS corporate services on behalf of the IJB do not have the capacity, are not able to work at the pace of the IJB's ambitions, or do not perform their function as required by the IJB to enable it to fulfil its functions - High

- There is a risk that the IJB and the services that it directs and has operational oversight of fail to meet performance standards or outcomes as set by regulatory bodies - Medium
- There is a risk of reputational damage to the IJB and its partner organisations resulting from complexity of function, delegation and delivery of services across health and social care - High
- Failure to deliver transformation at a pace or scale required by the demographic and financial pressures in the system – High
- There is a risk that the IJB does not maximise the opportunities offered by locality working – Medium
- Workforce planning across the Partnership is not sophisticated enough to maintain future service delivery - Medium

These risks are documented in the Strategic Risk register, which is monitored and updated frequently by the IJB Executive Team, who in turn report to the IJB and Audit and Performance Systems Committee on a regular basis.

Future challenges are to achieve financial savings from mainstream services in order to sustain the financial viability of the IJB. Also, it will be challenging to transform service delivery while trying to maintain the services required by our service users.

### **Analysis of the Financial Statements**

The accounts show usable reserves of £8,306,965 at 31 March 2018 (£10,417,474 at 31 March 2017). This is largely due to unspent integration and change funds provided by the Scottish Government to the IJB via NHS Grampian. This level of reserve had largely been anticipated throughout the year and is a result of the transformation programme taking longer than planned, due to the various governance processes.

Prescribing continues to be a major financial pressure for the IJB. In 2017/18 an overspend on the prescribing budget of £1,616,080 was incurred. This is largely due to a discount anticipated in one medicine not materialising at the forecast levels and the price of some drugs substantially increasing due to short supply issues. Work continues with our colleagues in pharmacy to reduce spend on prescribing and a regional approach is being developed across the North East supported by NHS Grampian.

Hosted services continue to experience financial pressure as the governance and financial processes between the three Grampian IJBs were not well enough developed for the 2017/18 budget process. As a result of this several budget legacy funding issues continued to be incurred and this was compounded as the additional budget was not provided for the pay award. Workshops have been held with the three IJBs during this financial year to start developing and refining the governance and financial processes.

Budgets for large hospitals are managed by NHS Grampian. The IJB has a notional budget representing the consumption of these services by residents. The IJB is responsible for the strategic planning for these services as a result of the legislation which established the IJBs.



The services covered include:

- accident and emergency services at Aberdeen Royal Infirmary and Dr Gray's - inpatient & outpatient;
- inpatient hospital services relating to general medicine, geriatric medicine, rehabilitation medicine, respiratory medicine, learning disabilities, old age psychiatry, general psychiatry;
- palliative care services provided at Roxburghe House Aberdeen and the Oaks Elgin.

One of the key priorities of the IJB and reasons why the IJBs were established is to reduce the use of these services by transferring them into the community. During the financial year NHS Grampian advised that the Aberdeen City IJB's use of these services had reduced as highlighted below.

<b>Set Aside</b>	<b>2016/17</b>	<b>2017/18</b>
Budget	£46,732,000	£41,344,000
Days used	152,498	142,349

The reason for the reduction is largely due to the reduction in the number patients categorised as being a delayed discharge.

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**Jonathan Passmore**  
IJB Chair



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**Sally Shaw**  
Interim Chief Officer



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**Alex Stephen**  
Chief Finance Officer



## **Independent auditor's report to the members of Aberdeen City Integration Joint Board and the Accounts Commission**

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

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

We certify that we have audited the financial statements in the annual accounts of Aberdeen City Integration Joint Board for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the body as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### **Basis of opinion**

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

#### **Conclusions relating to going concern basis of accounting**

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

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis

of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Responsibilities of the Chief Finance Officer for the financial statements**

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

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

The audit and performance systems committee is responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

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

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

### **Other information in the annual accounts**

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

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

## Report on other requirements

### Opinions on matters prescribed by the Accounts Commission

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

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

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

### Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Andrew Shaw (for and on behalf of KPMG LLP)

20 Castle Terrace

Edinburgh

EH1 2EG

## Statement of Responsibilities

### **Responsibilities of the Integration Joint Board**

The Integration Joint Board is required to:

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

I confirm that these Annual Accounts were approved for signature.

Signed on behalf of the Aberdeen City Integration Joint Board

**Jonathan Passmore**  
IJB Chair

## **Responsibilities of the Chief Financial Officer**

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

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

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

The chief financial officer has also:

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

I certify that the financial statements give a true and fair view of the financial position of the Aberdeen City Integration Joint Board as at 31 March 2018 and the transactions for the year then ended.

**Alex Stephen**  
Chief Finance Officer

## Remuneration Report

### Introduction

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

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

### Remuneration: IJB Chair and Vice Chair

The voting members of the IJB are appointed through nomination by Aberdeen City Council and NHS Grampian. The positions of IJB Chair and Vice Chair alternate between a Councillor and a Health Board representative every two years.

The IJB does not provide any additional remuneration to the Chair, Vice Chair or any other board members relating to their role on the IJB. The IJB does not reimburse the relevant partner organisations for any voting board member costs borne by the partner. The details of the Chair and Vice Chair appointments and any taxable expenses paid by the IJB are shown below.

Taxable Expenses 2016/17 £	Name	Post(s) Held	Nominated by	Taxable Expenses 2017/18 £
Nil	Jonathan Passmore	Chair 01/01/17 to 31/03/18 Vice Chair 01/04/16 to 31/12/16	NHS Grampian	Nil
Nil	Cllr Sarah Duncan	Vice Chair 18/05/17 to 31/03/18	Aberdeen City Council	Nil
Nil	Cllr Len Ironside CBE	Chair 01/04/16 to 31/12/16 Vice Chair 01/01/17 to 03/05/17	Aberdeen City Council	Nil
<b>Nil</b>	<b>Total</b>			<b>Nil</b>

The IJB does not have responsibilities, either in the current year or in future years, for funding any pension entitlements of voting IJB members. Therefore no pension rights disclosures are provided for the Chair or Vice Chair. From 3 May 2017 to 18 May 2017 there was no vice chair due to the period of time between the local government elections and the statutory meeting of the Council.

## Remuneration: Officers of the IJB

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

### Chief Officer

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

### Other Officers

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

<b>Total 2016/17 £</b>	<b>Senior Employees</b>	<b>Salary, Fees &amp; Allowances £</b>	<b>Taxable Expenses £</b>	<b>Total 2017/18 £</b>
108,746	<b>Judith Proctor*</b> Chief Officer 01/02/16 to 31/03/18	112,565	414	112,979
50,544 (FYE 68,124)	<b>Alex Stephen</b> Chief Finance Officer 04/07/16 to 31/03/18	68,806	nil	68,806
<b>159,290</b>	<b>Total</b>	<b>181,371</b>	<b>414</b>	<b>181,785</b>

FYE = Full Year Equivalent

\*Judith Proctor resigned from the post of Chief Officer during the financial year 2017/18, with her last day being 27 April 2018. Sally Shaw has been appointed as the interim Chief Officer to cover this role whilst a permanent appoint is made.

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

The IJB however has responsibility for funding the employer contributions for the current year in respect of the officer time spent on fulfilling the responsibilities of their role on the IJB. The following table shows the IJB's funding during the year to support officers' pension benefits. The table also shows the total value of accrued pension



benefits which may include benefits earned in other employment positions and from each officer's own contributions.

Officer Name	Responsibility	Pension as at 31/3/2018 £000	Pension Difference from 31/3/2017 £000	Lump Sum as at 31/3/2018 £000	Lump Sum Difference from 31/3/2017 £000	Pension Contribution 2017/2018 £	Pension Contribution 2016/2017 £
Judith Proctor	Chief Officer 01/02/2016 – 31/03/2018	34	4	82	2	16,745	16,191
Alex Stephen	Chief Finance Officer 01/07/2016 – 31/03/2018	22	2	32	1	13,280	9,755

The IJB does not have its own pension scheme, however, details of the North East of Scotland Pension scheme can be found in Aberdeen City Council's accounts and details of the NHS pension scheme can be found NHS Grampian's accounts. Both documents are available on their respective websites.

### Disclosure by Pay Bands

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

Number of Employees in Band 2016/17	Remuneration Band	Number of Employees in Band 2017/18
1	£65,000 - £69,999	1
1	£105,000 - £109,999	0
0	£110,000 - £114,999	1

### Exit Packages

No exit packages were paid to IJB staff during this period or the previous period.

**Jonathan Passmore**  
IJB Chair

**Sally Shaw**  
Interim Chief Officer

## **Annual Governance Statement**

### **Scope of Responsibility**

The Integration Joint Board (“IJB”) is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, safeguarding public funds and assets and making arrangements to secure best value in their use.

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

The IJB has a reliance on the Aberdeen City Council and NHS Grampian’s systems of internal control, which support compliance with both organisations’ policies and promotes achievement of each organisation’s aims and objectives, as well as those of the IJB.

The result of this is a situation where assurances are required on the effectiveness of the governance arrangements from the three partners. This means that a significant failure in the internal control environment of one of the three partners may require to be disclosed in the accounts of all three partners and not just the IJB and the partner where the issue occurred.

### **The Governance Framework**

In this complex environment of circular assurances it is important that the IJB has its own local code of corporate governance and regularly reviews performance against the governance principles included within this code. The IJB has developed an Assurance Framework in conjunction with the Good Governance Institute which provides readers with an understanding of the governance framework and the assurances that can be obtained from it.

The IJB agreed on 11 April 2017 at the Audit & Performance Systems Committee to adopt a local code of corporate governance which was built around the principles identified in the ‘CIPFA\SOLACE<sup>1</sup> Delivering good governance in Local Government Framework (2016 Edition)’. This code provides a list of documents from an IJB, NHS Grampian and Aberdeen City Council perspective which provide assurance on the governance framework.

At the same meeting a review undertaken by the Chief Finance Officer evaluating the IJB’s governance environment against the governance principles detailed in the CIPFA document titled the ‘the role of the chief financial officer in local government’.

Whilst both these documents were specifically written for Local Government the governance principles can be used by other public sector organisations. Also, the IJB is defined as a local government organisation per the Local Government (Scotland) Act 1973 and Aberdeen City Council has also adopted the governance principles from

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<sup>1</sup> CIPFA - The Chartered Institute of Public Finance and Accountancy

SOLACE – The Society of Local Authority Chief Executives

the delivering good governance document in its own local code of corporate governance.

Against each of the seven governance principles adopted by the IJB there are key documents, policies and arrangements which help address these. For the IJB some of these documents belong to NHS Grampian and Aberdeen City Council given their operational delivery role and the fact that the staff have remained employed by the partner bodies.

The seven governance principles identified in the local code of corporate governance and recommended in the CIPFA\SOLACE Framework are identified below, along with narratives evidencing compliance with the principles.

### **Principle 1 – Behaving with integrity, demonstrating strong commitment to ethical values and representing the rule of law,**

*Integrity:* The following values of the IJB are indicated in the strategic plan:

- Caring
- Person Centred
- Enabling

These values form part of the decision making process of the IJB and are evident in the actions and decisions made by the Board. The IJB has appointed a Standards Officer who is responsible, amongst other things, for the maintaining of Registers of Interests, Registers of Gifts and Hospitality and training on the Model Code of Conduct for Members of Devolved Public Bodies.

*Ethical Values:* Over the course of this financial year the IJB has agreed in principle to adopt the Unison Ethical Care Charter and has provided funding to care providers to allow the Scottish Living Wage to be paid.

*Rule of Law:* A comprehensive consultation process has been developed with officers from Aberdeen City Council and NHS Grampian to ensure that decisions and reports comply with legislation. A member of the Council's Governance Team attends the IJB to ensure that decisions taken are in line with any legislative requirements. The IJB has appointed a Chief Finance Officer to ensure that the accounts and finances are in line with the statutory accounting environment. The IJB has standing orders and an integration scheme which provide information on where decisions can be made. Two sub committees have been created and each have their own terms of reference.

*Improvement activities undertaken during the year:* The standing orders of the IJB have been reviewed and updated. The integration scheme of the IJB has also been updated and approved by both NHS Grampian and Aberdeen City Council. The register of interests for IJB members has been updated by the IJB members and published online. The powers delegated to officers by Aberdeen City Council were updated and a role and responsibilities protocol has now been agreed by the IJB for the Chief Officer and Chief Finance Officer. An officer from the Council's Governance Team is now based in the IJB Management Office for at least one day a week. The

IJB's format for formal Directions has been updated to make reference to the strategic plan priorities. An induction process was undertaken for new IJB members.

*Future Developments:* The terms of reference for the two sub committees will be reviewed during the next financial year.

## **Principle 2 – Ensuring openness and comprehensive stakeholder engagement,**

*Openness:* The IJB is a public board where members of the public can attend and agendas, reports and minutes are available to review. Therefore, members of the public can assess whether they believe that decisions are being taken in the public interest. The Audit & Performance Systems Committee is also a public meeting. The IJB has its own complaints handling procedure which complies with Scottish Public Services Ombudsman's guidance.

*Stakeholder Engagement:* The non-voting membership of the IJB is set out in the Public Bodies (Joint Working) (Integration Joint Boards) (Scotland) Order 2014. This comprises six professional members and a minimum of 4 stakeholder representatives for each of the following groups - staff, third sector bodies, service users and carers. The IJB agreed a budget protocol on the 7 March 2017 which sought to formalise stakeholder engagement with the partner organisations around the budget process. Care providers are very much thought of as a key part of the partnership and invited to the majority of the events the IJB hosts. The IJB has established the Aberdeen City Joint Staff Forum, which includes representation from the trade unions and the staff partnership, as a forum for workforce issues affecting social care and health staff.

*Improvement activities undertaken during the year:* A number of workshops have been held during the year, particularly around primary care and the transformation programme. A communications protocol documenting how the IJB will communicate with its stakeholder has been developed and approved by the IJB's Executive Team. A communication grid has also been established which shows when, where and what we plan to communicate throughout the year. The complaints handling procedure was agreed by Audit & Performance Systems Committee on 20 June 2017.

*Future Developments:* Implement the duty of candour guidance across the partnership.

## **Principle 3 – Defining outcomes in terms of sustainable economic, social and environmental benefits,**

*Economic:* The IJB has agreed a Medium Term Financial Strategy which will be updated annually. The transformation programme and IJB report format specifically highlight the economic impact of the decisions being taken on current and future financial years. Work has been undertaken to establish the financial and operational benefits of the major transformation projects.

*Social:* The IJB has published a strategic plan which identifies outcomes and the direction of travel over the next few years. The majority of outcomes are closely linked to how social care and health services will be delivered and improved over the life of the strategic plan.

*Environmental:* A public bodies climate change duties report is collated and submitted annually on behalf of the IJB

**Principle 4 - Determining the interventions necessary to optimise the achievement of intended outcomes,**

*Interventions:* A transformation programme has been developed focussing on six big ticket items which will help support the delivery of the strategic plan. These six big ticket items are monitored on a regular basis and information on progress is received by the Integration Joint Board and the Audit & Performance Systems Committee for scrutiny and challenge. Decisions to procure services costing over £50,000 are taken by the Integration Joint Board in so far as it relates to a Direction made to the NHS or Aberdeen City Council in respect of a delegated function and each report contains a section on risk. The Transformation Board monitors any new projects ensuring that an optional appraisal and project plan is developed in line with best practice. The benefits, both financial and non-financial, are highlighted and contained in the project plans.

*Future Developments:* The IJB should review and update its Strategic Plan during the financial year 2018/19.

**Principle 5 – Developing the entity’s capacity, including the capability of its leadership and the individuals within it,**

*Entity’s Capacity:* A workforce plan has been developed for the IJB covering health and social care services. Capacity is further developed and scrutinised by having stakeholders out with those employed by the IJB, ACC or NHS Grampian around the IJB and many of its working groups.

*Leadership:* The IJB has set itself goals and has evaluated their performance against these goals. An organisational development plan has been developed and agreed which has a focus on leadership. A conference was held by the partnership during the year focussing on social care and health which was well attended.

*Individuals:* An induction programme has been established for the IJB which complements the induction programmes of NHS Grampian and Aberdeen City Council. Monthly newsletters are sent to all staff and an awards ceremony was held to celebrate achievements during the year. Staff surveys have been undertaken for Council staff and the ‘imatter’ survey is undertaken annually. The outputs from these surveys are discussed by the IJB Executive Team and any necessary improvement actions implemented.

*Improvement activities undertaken during the year:* The ‘imatter’ survey was undertaken and teams have prepared their action plans on the basis of the information included. A dignity at work staff survey was also rolled out to staff and the results are in the process of being reviewed by the IJB Executive Team. A leadership programme called ‘From the Ground Up’ led by the IJB Executive Team has been established. This involves the IJB Executive Team visiting operational services and also hosting quarterly leadership events for third and fourth tier managers.

## **Principle 6 - Managing risk and performance through robust internal control and strong public financial management,**

*Risk:* Two risk registers have been developed. The first is an IJB strategic risk register and this documents the risk that the IJB may face in delivery of the strategic plan. The second register covers operational risks and is a summary of the departmental operational risk registers. Both the strategic risk register is updated frequently and reported to the Audit & Performance Systems Committee and the IJB.

*Performance:* A performance management framework has been developed for the IJB and is reported frequently to the Audit & Performance Systems Committee and the IJB. Performance is also monitored by bi-monthly city sector performance review meetings, where the Chief Executives and senior finance officers from NHS Grampian and Aberdeen City Council discuss performance and finance in a structured meeting with the Chief Officer and Chief Finance Officer. Performance management information is provided at a national NHS level and also contained within the statutory performance indicators reported by the Council. An annual performance report is required as defined in the legislation (Public Bodies (Joint Working) (Scotland) Act 2014) underpinning the creation of the IJB.

*Internal Controls:* The internal control environment is largely delivered by the partner organisations given their operational remit. However, internal controls are evidenced in the IJB integration scheme and financial regulations. A review of the IJB internal controls is undertaken annually by the Chief Internal Auditor and his opinion on the adequacy of the internal control environment is highlighted below.

*Financial Management:* The IJB has received quarterly reports on the financial position as indicated in the integration scheme. All IJB reports contain a financial implications section advising the IJB on the budget implications of agreeing the recommendations of the report.

*Improvement activities undertaken during the year:* A Medium Term Financial Strategy has been prepared and agreed by the IJB. A Strategic Commissioning Implementation plan was also approved. The Board Assurance and Escalation Framework was reviewed by Audit & Performance Systems Committee and final agreement was given to the revised version by the IJB on 30 January 2018.

*Future Developments:* A workshop will be undertaken with the IJB on the risk and risk registers. The risk appetite statement will be reviewed and agreed by the IJB.

## **Principle 7 – Implementing good practices in transparency, reporting, and audit to deliver effective accountability.**

*Transparency:* The IJB meetings are held in public and the agendas, reports and minutes are available for the public to inspect. Public attendance is welcome at the IJB meetings. The Audit & Performance Systems committee is held in public. The IJB has developed a publication scheme as required under the Freedom of Information (Scotland) Act 2002.

*Reporting:* The annual accounts management commentary section will have a focus on both financial and service performance over the last financial year.

*Audit:* The 2016/17 accounts received an unqualified audit opinion. The Audit & Performance Systems Committee has received an internal audit plan from the Chief Internal Auditor and internal audit reports over the last financial year.

*Improvement activities undertaken during the year:* Work has been undertaken on performance monitoring at a national level through the Ministerial Steering Group (MSG) and they have developed indicators for the IJBs which are used as the basis for improvement planning. The Fairer Scotland Duty will also be reviewed and embedded in the Partnership during this period.

## **Review of Effectiveness**

The IJB has responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements, including the system of internal control. The review is informed by the work of the IJB Executive Team (who have responsibility for the development and maintenance of the internal control framework environment), the work of the internal auditor and the Chief Internal Auditor's annual report, and reports from the external auditor and other review agencies and inspectorates.

The Chief Internal Auditor has reviewed the IJB's internal control framework and in his opinion reasonable assurance can be placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and control in the year to 31 March 2018.

Whilst issues were identified in audits that have been completed, as reported to the Audit and Performance Systems Committee, areas of good practice, improvement, and procedural compliance were also identified.

The external auditor's 2017/18 annual report had one formal recommendation for the Executive Team about establishing a formal records management procedure with version control features. The IJB is in the process of rolling out Microsoft Office 365 and has created a separate environment for files for the final accounts. This system means only one version of the file will be available and it is possible to track back when changes were made and by whom. This system will be rolled out in due course across the Partnership.

The governance framework was reviewed by the Executive Team against the governance principles identified in the CIPFA Role of the Chief Finance Officer Framework. The Audit & Performance Systems Committee were updated on progress with the implementation of improvement actions identified on the 10 April 2018.

The local code of corporate governance was agreed by the Audit & Performance Systems Committee on the 11 April 2017 and progress against the seven principles is detailed above. At Audit & Performance Systems Committee on the 10 April 2018 an update was provided on the sources of assurance contained in the local code of governance.

The work undertaken against the improvement actions highlighted in the 2017/18 annual governance statement is detailed in the improvement activities undertaken during the year sections detailed above.

It is recognised that the IJB's governance framework is evolving as it matures and that future development work is required to provide further assurance against the governance principles. A summarised list of the 2018/19 improvement actions is shown directly below:

	<b>Area Improvement Outcome Achieved for and to Be</b>	<b>Improvement Action Agreed</b>	<b>Responsible Party</b>	<b>Completion Date</b>
1.	Sub Committee Terms of Reference	Review to ensure still fit for purpose	IJB Committee Clerk	31 March 2019
2.	Duty of Candour	Implement across Partnership	Business Manager	31 March 2019
3.	Strategic Plan	Update the strategic plan	Lead Strategy Manager	31 March 2019
4.	Risk Registers	Hold a workshop on the risk registers to review and familiarise IJB of the contents and process.	Chief Officer	31 March 2019
5.	Fairer Scotland Duty	Implement across Partnership	Business Manager	31 March 2019

In addition, the review of the effectiveness of the governance arrangements and systems of internal control within Aberdeen City Council and NHS Grampian places reliance upon the individual bodies' management assurances in relation to the soundness of their systems of internal control.

Accordingly the following notes support the reliance that is placed upon those systems:

**i) Aberdeen City Council's governance framework**

Aberdeen City Council's governance framework comprises the systems and processes, culture and values by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives as set out in the Strategic Business Plan 2017/18, where the role of governance, performance management and risk management are recognised as crucial in improving stewardship and how we do business. Reviewing our governance activity enables us to consider whether those objectives have led to the delivery of appropriate, cost effective services to the citizens of Aberdeen.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The Audit, Risk and Scrutiny Committee has a key role in this and an annual report of its activities will be approved by the committee and



referred to Council for its consideration. This demonstrates the Council's governance arrangements through improved transparency, understanding and challenge of the activity and outcomes from the Audit, Risk and Scrutiny Committee.

The Council has an approved Local Code of Corporate Governance which sets out our commitment to the seven principles recommended in the CIPFA / SOLACE Framework 2016, by citing the primary sources of assurance which demonstrate the effectiveness of our systems of internal control.

<b>Principle A</b>	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
<b>Principle B</b>	Ensuring openness and comprehensive stakeholder engagement
<b>Principle C</b>	Defining outcomes in terms of sustainable economic, social and environmental benefits
<b>Principle D</b>	Determining the interventions necessary to optimise the achievement of the intended outcomes
<b>Principle E</b>	Developing the entity's capacity, including the capability of its leadership and the individuals within it
<b>Principle F</b>	Managing risk and performance through robust internal control and strong public financial management
<b>Principle G</b>	Implementing good practices in transparency, reporting and audit, to deliver effective accountability

The Code, approved by Council on 15<sup>th</sup> March 2017, can be viewed at:

<https://committees.aberdeencity.gov.uk/documents/s67547/LocalCodeofCorporateGovernance.pdf>

In summary the Council has undertaken a self-evaluation of its Local Code of Corporate Governance and determined that there is strong compliance with the Code and that governance processes, procedures, performance reporting and engagement material are well managed by the organisation. The Council has a clear approach to the decision-making process and seeks to engage with those in the community and with partners and staff.

**The Chief Executive and Co-Leaders of the Council have certified that reasonable assurance can be placed upon the adequacy and effectiveness of Aberdeen City Council's systems of governance and that the annual review demonstrates sufficient evidence that the Code of Corporate Governance operates effectively. Furthermore, the Council proposes over the coming year to take steps to further enhance governance arrangements and are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.**

## **ii) NHS Grampian governance framework**

NHS Grampian is required to operate within the aspects of the Scottish Public Finance Manual (SPFM) which are set out within the guidance issued to Chief Executives and more generally to all Board members by the Scottish Government Health and Social Care Directorates as being applicable to NHS Boards. The SPFM is issued by Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. The SPFM sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for efficiency, effectiveness and economy, and promotes good practice and high standards of propriety.

As Accountable Officer, the Chief Executive is responsible for maintaining an adequate and effective system of internal control that identifies, prioritises and manages the principal risks facing the organisation, promotes achievement of the organisation's aims and objectives and supports compliance with the organisation's policies and safeguarding public funds.

The Board continually monitors and reviews the effectiveness of the system of internal control with a specific focus on the delivery of safe and effective patient care, achievement of national and local targets and demonstrating best value and the efficient use of resources. Key elements of the system of internal control include:

- A Board which meets regularly to discharge its governance responsibilities, set the strategic direction for the organisation and approve decisions in line with the Scheme of Delegation. The Board comprises the Executive Directors and Non-Executive members. The Board activity is open to public scrutiny with minutes of meetings publicly available;
- The Board receives regular reports on Healthcare Associated Infection and reducing infection as well as ensuring that health and safety, cleanliness and good clinical practice are high priorities;
- Scheme of Delegation, Standing Orders and Standing Financial Instructions approved by the Board are subject to regular review to assess whether they are relevant and fully reflective of both best practice and mandatory requirements;
- Mature and organisation wide risk management arrangements built on localised risk registers and processes which ensure, as appropriate, escalation of significant instances of non compliance with applicable laws and regulations;
- Dedicated full time members of staff for key statutory compliance functions including Information Governance, Health and Safety, fire and asbestos, tasked with ensuring they are up to date with all relevant legislation and are responsible for co-ordinating management action in these areas.
- A focus on best value and commitment to ensuring that resources are used efficiently, effectively and economically taking into consideration equal opportunities and sustainable development requirements;
- Consideration by the Board of regular reports from the chairs of the performance governance, patient focus and public involvement, staff

governance, clinical governance, endowment and audit committees concerning any significant matters on governance, risk and internal controls;

- Each key governance committee is supported by a designated lead Executive Director who has the delegated management accountability for statutory and regulatory matters.
- Regular review of financial performance, risk management arrangements and non financial performance against key service measures and standards by the Performance Governance Committee;
- Regular review of service quality against recognised professional clinical standards by the Clinical Governance Committee;
- Regular review of workforce arrangements and implementation of the NHS Scotland Staff Governance standards by the Staff Governance Committee;
- An active joint management and staff partnership forum with staff side representation embedded in all key management teams and a dedicated full time Employee Director who is a member of the Board;
- Regular review of priorities for infrastructure investment and progress against the agreed Asset Management Plan by an Asset Management Group chaired by a Board Executive Director and including management representatives from all operational sectors and representation from the clinical advisory structure;
- Clear allocation of responsibilities to ensure we review and develop our organisational arrangements and services in line with national standards and guidance;
- Consultation on service change proposals is undertaken with stakeholders and used to inform decision making;
- Promotion of effective cross sector governance arrangements through participation by the IJB Board members and the Chief executives of each of the partner organisations in the North East Partnership forum, regular meetings between the Chief Executives of all Public Sector organisations in Grampian and performance review meetings with each IJB Chief Officer to further develop and drive improvement through integrated service delivery.
- A patient feedback service to record and investigate complaints and policies to protect employees who raise concerns in relation to suspected wrongdoing such as clinical malpractice, fraud and health and safety breaches; and
- An annual general meeting of all Trustees of the NHS Grampian Endowment Funds to approve the accounts and review investment policy and strategy.

**Based on the evidence considered during the review of the effectiveness of the internal control environment operating within NHS Grampian, the Chief Executive has confirmed that he is not aware of any outstanding significant control weaknesses or other failures to achieve the standards set out in the guidance that applies to NHS Boards in relation to governance, risk management and internal control.**

**Certification**

**Subject to the above, and on the basis of assurances provided, we consider that the internal control environment operating during the reporting period provides reasonable and objective assurance that any significant risks impacting upon the achievement of our principal objectives will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the internal control environment and action plans are in place to identify areas for improvement. It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Aberdeen City Integration Joint Board’s systems of governance.**

.....

Sally Shaw  
Interim Chief Officer

.....

Jonathan Passmore  
Chair

## Comprehensive Income and Expenditure Statement

This statement shows the cost of providing services for the year according to accepted accounting practices.

		2016/17			2017/18	
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£	£	£		£	£	£
31,649,313	-	31,649,313	Community Health Services	31,406,760	-	31,406,760
21,207,851	-	21,207,851	Aberdeen City share of Hosted Services (health)	21,724,509	-	21,724,509
29,264,461	-	29,264,461	Learning Disabilities	31,269,790	-	31,269,790
18,304,741	-	18,304,741	Mental Health & Addictions	20,065,177	-	20,065,177
69,719,818	-	69,719,818	Older People & Physical and Sensory Disabilities	72,882,926	-	72,882,926
1,007,021	(170,013)	837,008	Head office/Admin	(475,319)	(112,000)	(587,319)
4,413,345	(4,624,593)	(211,248)	Criminal Justice	4,658,796	(4,749,806)	(91,010)
2,197,288	-	2,197,288	Housing	1,860,555	-	1,860,555
40,005,916	-	40,005,916	Primary Care Prescribing	41,364,343	-	41,364,343
36,846,589	-	36,846,589	Primary Care	37,234,075	-	37,234,075
1,219,506	-	1,219,506	Out of Area Treatments	1,480,487	-	1,480,487
46,732,000	-	46,732,000	Set Aside Services	41,344,000	-	41,344,000
2,856,283	-	2,856,283	Transformation	5,011,678	-	5,011,678
<b>305,424,132</b>	<b>(4,794,606)</b>	<b>300,629,526</b>	<b>Cost of Services</b>	<b>309,827,777</b>	<b>(4,861,806)</b>	<b>304,965,971</b>
-	(311,047,000)	(311,047,000)	Taxation and Non-Specific Grant Income (Note 5)	-	(302,855,462)	(302,855,462)
<b>305,424,132</b>	<b>(315,841,606)</b>	<b>(10,417,474)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>309,827,777</b>	<b>(307,717,268)</b>	<b>2,110,509</b>
		<b>(10,417,474)</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>2,110,509</b>

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

### **Movement in Reserves Statement**

This statement shows the movement in the year on the IJB's reserves. The movements which arise due to statutory adjustments which affect the General Fund balance are separately identified from the movements due to accounting practices.

<b>Movements in Reserves During 2017/18</b>	General Fund Balance	Total Reserves
	£	£
<b>Opening Balance at 31 March 2017</b>	(10,417,474)	(10,417,474)
Total Comprehensive Income and Expenditure	2,110,509	2,110,509
Adjustments between accounting basis and funding basis under regulation	-	-
(Increase) or Decrease in 2017/18	<b>2,110,509</b>	<b>2,110,509</b>
<b>Closing Balance at 31 March 2018</b>	<b>(8,306,965)</b>	<b>(8,306,965)</b>
<b>Movements in Reserves During 2016/17</b>	General Fund Balance	Total Reserves
	£	£
<b>Opening Balance at 31 March 2016</b>	-	-
Total Comprehensive Income and Expenditure	(10,417,474)	(10,417,474)
Adjustments between accounting basis and funding basis under regulation	-	-
(Increase) or Decrease in 2016/17	<b>(10,417,474)</b>	<b>(10,417,474)</b>
<b>Closing Balance at 31 March 2017</b>	<b>(10,417,474)</b>	<b>(10,417,474)</b>

## Balance Sheet

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

<b>31-Mar 2017</b>		<b>Notes</b>	<b>31-Mar 2018</b>
£			£
10,417,474	Short term Debtors	(6)	8,306,965
<b>10,417,474</b>	<b>Current Assets</b>		<b>8,306,965</b>
-	Short-term Creditors		-
-	<b>Current Liabilities</b>		-
-	Provisions		-
-	<b>Long-term Liabilities</b>		-
<b>10,417,474</b>	<b>Net Assets</b>		<b>8,306,965</b>
(10,417,474)	Usable Reserve: General Fund	(7)	(8,306,965)
-	Unusable Reserve:		-
<b>(10,417,474)</b>	<b>Total Reserves</b>		<b>(8,306,965)</b>

The audited accounts were issued on 12 June 2018

**Alex Stephen**  
Chief Finance Officer

Usable reserves may be used to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. Unusable Reserves includes reserves relating to statutory adjustments as shown in the Movement in Reserves Statement.

## Notes to the Financial Statements

### **1. Significant Accounting Policies**

#### General Principles

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

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

The Financial Statements are therefore prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS), unless legislation or statutory guidance requires different treatment.

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

#### Accruals of Income and Expenditure

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

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

#### Funding

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



### Cash and Cash Equivalents

The IJB does not operate a bank account or hold cash. Transactions are settled on behalf of the IJB by the funding partners. Consequently the IJB does not present a 'Cash and Cash Equivalent' figure on the balance sheet or a cashflow statement. The funding balance due to or from each funding partner as at 31 March is represented as a debtor or creditor on the IJB's Balance Sheet.

### Employee Benefits

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

The IJB has a legal responsibility to appoint a Chief Officer. More details on the arrangements are provided in the Remuneration Report. The charges from the employing partner are treated as employee costs. Where material the Chief Officer's absence entitlement as at 31 March is accrued, for example in relation to annual leave earned but not yet taken. In the case of Aberdeen City IJB any annual leave earned but not yet taken is not considered to be material.

### Provisions, Contingent Liabilities and Contingent Assets

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

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

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

### Reserves

The Integration Joint Board is permitted to set aside specific amounts as reserves for future policy purposes. Reserves are generally held to do three things:

- create a working balance to help cushion the impact of uneven cash flows – this forms part of general reserves;

- create a risk fund to cushion the impact of unexpected events or emergencies; and
- create a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

The balance of the reserves normally comprises of:

- funds that are earmarked or set aside for specific purposes; and
- funds which are not earmarked for specific purposes but are set aside to deal with unexpected events or emergencies.

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged against the appropriate line in the Income and Expenditure Statement in that year to score against the Surplus/Deficit on the Provision of Services. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement.

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

The IJB's only Usable Reserve is the General Fund. The balance of the General Fund as at 31 March shows the extent of resources which the IJB can use in later years to support service provision.

#### Indemnity Insurance

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

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

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

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

#### Support Services

Corporate support services (finance, legal and strategy) are provided by Aberdeen City Council and NHS Grampian at no cost to the IJB and it is not possible to separately identify these costs. To the extent that delegated services include an element of overheads and support services costs, these will be included within the appropriate line within the Income and Expenditure statement. No charge was made for the services of the Interim Chief Finance Officer during the shadow period.

## **2. Critical Judgements and Estimation Uncertainty**

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

### Provisions

No financial provision for any future events has been made by the IJB in this accounting period.

## **3. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Integration Joint Board's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period

The audited Annual Accounts were authorised for issue by the Chief Finance Officer on 12 June 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

#### **4. Expenditure and Income Analysis by Nature**

<b>2016/17</b>		<b>2017/18</b>
£		£
117,050,344	Services commissioned from Aberdeen City Council	122,925,886
188,347,788	Services commissioned from NHS Grampian	186,873,091
	- Employee Benefits Expenditure	-
	- Insurance and Related Expenditure	-
26,000	Auditor Fee: External Audit	28,800
	- Auditor Fee: Other	-
(4,794,606)	Service Income: Aberdeen City Council	(4,861,806)
	- Service Income: NHS Grampian	-
(311,047,000)	Partners Funding Contributions and Non-Specific Grant Income	(302,855,462)
<hr/>		
<b>(10,417,474)</b>	<b>(Surplus) or Deficit on the Provision of Services</b>	<b>2,110,509</b>

#### **5. Taxation and Non-Specific Grant Income**

<b>2016/17</b>		<b>2017/18</b>
£		£
(88,463,000)	Funding Contribution from Aberdeen City Council	(85,168,829)
(222,584,000)	Funding Contribution from NHS Grampian	(217,686,633)
<hr/>		
<b>(311,047,000)</b>	<b>Taxation and Non-specific Grant Income</b>	<b>(302,855,462)</b>

The funding contribution from the NHS Board shown above includes £41,344,000 in respect of 'set aside' resources relating to acute hospital and other resources. These are provided by the NHS which retains responsibility for managing the costs of providing the services. The IJB however has responsibility for the consumption of, and level of demand placed on, these resources.

The funding contributions from the partners shown above exclude any funding which is ring-fenced for the provision of specific services. Such ring-fenced funding is presented as income in the Cost of Services in the Comprehensive Income and Expenditure Statement.

## 6. Debtors

<b>31-Mar-17</b>		<b>31-Mar-18</b>
£		£
5,644,089	NHS Grampian	5,181,711
4,773,385	Aberdeen City Council	3,125,254
<hr/> <b>10,417,474 Debtors</b>		<hr/> <b>8,306,965</b>

Amounts owed by the funding partners are stated on a net basis. Creditor balances relating to expenditure obligations incurred by the funding partners but not yet settled in cash terms are offset against the funds they are holding on behalf of the IJB.

## 7. Usable Reserve: General Fund

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

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

The table below shows the movements on the General Fund balance, analysed between those elements earmarked for specific planned future expenditure, and the amount held as a risk fund.

<b>2016/17</b>				<b>2017/18</b>			
Balance at 1 April 2016	Transfers In	Transfers Out	Balance at 31 March 2017		Transfers In	Transfers Out	Balance at 31 March 2018
£	£	£	£		£	£	£
-	(500,000)	-	(500,000)	Equipment	-	-	(500,000)
-	-	-	-	Primary Care	(2,639,806)	-	(2,639,806)
-	(7,417,474)	-	(7,417,474)	Integration +Change	-	4,000,315	(3,417,159)
-	(7,917,474)	-	(7,917,474)	Total Earmarked	(2,639,806)	4,000,315	(6,556,965)
-	(2,500,000)	-	(2,500,000)	Risk Fund	-	750,000	(1,750,000)
-	<b>(10,417,474)</b>	-	<b>(10,417,474)</b>	<b>General Fund</b>	<b>(2,639,806)</b>	<b>4,750,315</b>	<b>(8,306,965)</b>

## 8. Agency Income and Expenditure

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

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

<b>2016/17</b>		<b>2017/18</b>
£		£
1,219,057	Expenditure on Agency Services	1,259,746
(1,219,057)	Reimbursement for Agency Services	(1,259,746)
<b>- Net Agency Expenditure excluded from the CIES</b>		<b>-</b>

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

<b>2016/17</b>		<b>2017/18</b>
£		£
5,772,096	Expenditure on Agency Services	6,061,434
(5,772,096)	Reimbursement for Agency Services	(6,061,434)
<b>- Net Agency Expenditure excluded from the CIES</b>		<b>-</b>

## 9. Related Party Transactions

The IJB has related party relationships with the NHS Grampian, Aberdeen City Council and Bon Accord Care/Bon Accord Support Services. The nature of these relationships means that the IJB may influence, and be influenced by, these parties. The following transactions and balances included in the IJB's accounts are presented to provide additional information on the relationships.

## NHS Grampian

<b>2016/17</b>		<b>2017/18</b>
£		£
(222,584,000)	Funding Contributions received from the NHS Board*	(217,686,633)
-	- Service Income received from the NHS Board	-
188,183,593	Expenditure on Services Provided by the NHS Board	186,687,549
159,923	Key Management Personnel: Non-Voting Board Members	185,542
<b>(34,240,484)</b>	<b>Net Transactions with the NHS Grampian</b>	<b>(30,813,542)</b>

Key Management Personnel: The non-voting Board members employed by the NHS Board and recharged to the IJB include the Chief Officer and the Clinical Director. Details of the remuneration for some specific post-holders is provided in the Remuneration Report

\*Includes resource transfer income of £31,275,920

## Balances with NHS Grampian

<b>31-Mar-17</b>		<b>31-Mar-18</b>
£		£
5,644,089	Debtor balances: Amounts due from the NHS Board	5,181,711
-	- Creditor balances: Amounts due to the NHS Board	-
<b>5,644,089</b>	<b>Net Balance with the NHS Grampian</b>	<b>5,181,711</b>

## Transactions with Aberdeen City Council

<b>2016/17</b>		<b>2017/18</b>
£		£
(88,463,000)	Funding Contributions received from the Council	(85,168,829)
(4,794,606)	Service Income received from the Council	(4,861,806)
117,014,182	Expenditure on Services Provided by the Council	122,864,232
66,434	Key Management Personnel: Non-Voting Board Members	90,454
<b>23,823,010</b>	<b>Net Transactions with Aberdeen City Council</b>	<b>32,924,051</b>

Key Management Personnel: The Non-Voting Board members employed by the NHS Board and recharged to the IJB include the Chief Financial Officer. Details of the remuneration for some specific post-holders is provided in the Remuneration Report. The Chief Social Work Officer is a non voting member of the Integration Joint Board and the costs associated for this post are borne by the Council.

<b>31-Mar-17</b>		<b>31-Mar-18</b>
£		£
4,773,385	Debtor balances: Amounts due from the Council	3,125,254
-	- Creditor balances: Amounts due to the Council	-
<hr/>		
<b>4,773,385</b>	<b>Net Balance with the Aberdeen City Council</b>	<b>3,125,254</b>
<hr/>		

Transactions with Bon Accord Care (BAC) and Bon Accord Support Services (BASS)

Bon Accord Care Limited and Bon Accord Support Services Limited are private companies limited by shares which are 100% owned by Aberdeen City Council. Bon Accord Care provides regulated (by the Care Inspectorate) care services to Bon Accord Support Services which in turn delivers both regulated and unregulated adult social care services to the Council.

<b>31-Mar-17</b>		<b>31-Mar-18</b>
£		£
(1,184,001)	Service Income received from the Council	(898,000)
26,435,283	Expenditure on Services Provided by the Council	28,975,742
<hr/>		
<b>25,251,282</b>	<b>Net Transactions with BAC/BASS</b>	<b>28,077,742</b>
<hr/>		

## **10. VAT**

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



## **Glossary of Terms**

While the terminology used in this report is intended to be self-explanatory, it may be useful to provide additional definition and interpretation of the terms used.

### **Accounting Period**

The period of time covered by the Accounts normally a period of twelve months commencing on 1 April each year. The end of the accounting period is the Balance Sheet date.

### **Accruals**

The concept that income and expenditure are recognised as they are earned or incurred not as money is received or paid.

### **Asset**

An item having value to the IJB in monetary terms. Assets are categorised as either current or non-current. A current asset will be consumed or cease to have material value within the next financial year (e.g. cash and stock). A non-current asset provides benefits to the IJB and to the services it provides for a period of more than one year.

### **Audit of Accounts**

An independent examination of the IJB's financial affairs.

### **Balance Sheet**

A statement of the recorded assets, liabilities and other balances at the end of the accounting period.

### **CIPFA**

The Chartered Institute of Public Finance and Accountancy.

### **Consistency**

The concept that the accounting treatment of like terms within an accounting period and from one period to the next is the same.

### **Contingent Asset/Liability**

A Contingent Asset/Liability is either:

- A possible benefit/obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain events not wholly within the IJB's control; or
- A present benefit/obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

### **Creditor**

Amounts owed by the IJB for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the end of that accounting period.

### **Debtor**

Amount owed to the IJB for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the end of that accounting period.

### **Entity**

A body corporate, partnership, trust, unincorporated association or statutory body that is delivering a service or carrying on a trade or business with or without a view to profit. It should have a separate legal personality and is legally required to prepare its own single entity accounts.

### **Exceptional Items**

Material items which derive from events or transactions that fall within the ordinary activities of the IJB and which need to be disclosed separately by virtue of their size or incidence to give a fair presentation of the accounts.

### **Government Grants**

Grants made by the Government towards either revenue or capital expenditure in return for past or future compliance with certain conditions relating to the activities of the IJB. These grants may be specific to a particular scheme or may support the revenue spend of the IJB in general.

### **IAS**

International Accounting Standards.

### **IFRS**

International Financial Reporting Standards.

### **IRAG**

Integration Resources Advisory Group

### **LASAAC**

Local Authority (Scotland) Accounts Advisory Committee

### **Liability**

A liability is where the IJB owes payment to an individual or another organisation. A current liability is an amount which will become payable or could be called in within the next accounting period e.g. creditors or cash overdrawn. A non-current liability is an amount which by arrangement is payable beyond the next year at some point in the future or will be paid off by an annual sum over a period of time.

### **Provisions**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

### **PSIAS**

Public Sector Internal Audit Standards.

### **Related Parties**

Bodies or individuals that have the potential to control or influence the IJB or to be controlled or influenced by the IJB. For the IJB's purposes, related parties are deemed to include voting members, the Chief Officer, the Chief Finance Officer, the Heads of Service and their close family and household members.

### **Remuneration**

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as these sums are chargeable to UK income tax) and the monetary value of any other benefits received other than incash.

### **Reserves**

The accumulation of surpluses, deficits and appropriation over past years. Reserves of a revenue nature are available and can be spent or earmarked at the discretion of the IJB.

### **Revenue Expenditure**

The day-to-day expenses of providing services.

### **Significant Interest**

The reporting authority is actively involved and is influential in the direction of an entity through its participation in policy decisions.

### **SOLACE**

Society of Local Authority Chief Executives.

### **The Code**

The Code of Practice on Local Authority Accounting in the United Kingdom.

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12 June 2018

KPMG LLP  
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G2 5AS

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Social Care Partnership**  
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50 Frederick Street  
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Ref:  
Your Ref:

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Aberdeen City Integration Joint Board (“the Board”), for the year ended 31 March 2018, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the state of the Board’s affairs as at 31 March 2018 and of the Board’s surplus or deficit for the financial year then ended;
- ii. whether the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18; and
- iii. whether the financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2015, and the Public Bodies (Joint Working) (Scotland) Act 2014.

These financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance sheet and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.



The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

### **Financial statements**

1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement dated 31 May 2016, for the preparation of financial statements that:
  - i. give a true and fair view of the state of the Board's affairs as at the end of its financial year and of its surplus or deficit for that financial year;
  - ii. have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU ("IFRSs"), as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17; and
  - iii. have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2015, and the Public Bodies (Joint Working) (Scotland) Act 2014.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.

### **Information provided**

4. The Board has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Board for the purpose of the audit; and
  - unrestricted access to persons within the Board from whom you determined it necessary to obtain audit evidence.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.



6. The Board confirms the following:

- i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Board has disclosed to you all information in relation to:
- a) Fraud or suspected fraud that it is aware of and that affects the Board and involves:
- management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements; and
- b) allegations of fraud, or suspected fraud, affecting the Board's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

7. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
8. The Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
9. The Board has disclosed to you the identity of the Board's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.



Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24.

10. The Board confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Board's ability to continue as a going concern as required to provide a true and fair view.
- b) No events or conditions have been identified that may cast significant doubt on the ability of the Board to continue as a going concern.

This letter was tabled and agreed at the meeting of the Audit and Performance Systems Committee on 12 June 2018.

Yours faithfully,

ALEX STEPHEN  
Chief Finance Officer





## **Appendix to the Board Representation Letter of Aberdeen City Integration Joint Board: Definitions**

### **Financial Statements**

IAS 1.10 states that “a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title ‘statement of comprehensive income’ instead of ‘statement of profit or loss and other comprehensive income’.”

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”



## **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

## **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## **Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

## **Related Party and Related Party Transaction**

### **Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or



- iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions applies:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control or joint control of, or significant influence over, the reporting entity; and
- b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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## Audit and Performance Systems Committee

<b>Report Title</b>	External Audit Final Report
<b>Lead Officer</b>	Alex Stephen, Chief Finance Officer
<b>Report Author (Job Title, Organisation)</b>	Alex Stephen, Chief Finance Officer
<b>Report Number</b>	HSCP/17/015
<b>Date of Report</b>	07/06/2018
<b>Date of Meeting</b>	12/06/2018

### 1: Purpose of the Report

- 1.1. The purpose of this report is to present the Audit & Performance Systems (APS) Committee with the external audit report *'ISA 260: Audit report to those charged with governance and the Controller of Audit – year ended 31 March 2018'* for discussion and noting.

### 2: Summary of Key Information

- 2.1 The Accounts Commission has appointed KPMG LLP as auditor of the Aberdeen City Integration Joint Board (IJB).
- 2.2 This report to those charged with governance is designed to summarise the external auditor's opinions and conclusions on significant issues arising from the audit of the financial statements for Aberdeen City IJB for the financial period 2017/18.
- 2.3 The scope and nature of the audit was set out in the audit strategy document, which was presented to the Audit & Performance Systems committee at the outset of the audit.
- 2.4 There were not any new audit recommendations identified during the audit for the year ended 31 March 2018.
- 2.5 There was 1 recommendation made during the audit for the year ended 31 March 2017. This is complete, and no issues were noted during the 2017-18 audit.



## Audit and Performance Systems Committee

### Appendices

- a) KPMG (2018) - *'ISA 260: Audit report to those charged with governance and the Controller of Audit – year ended 31 March 2018'*

### 3: Equalities, Financial, Workforce and Other Implications

- 3.1 **Equalities** – There are no equalities implications arising directly from this report.
- 3.2 **Financial** – There are no financial implications arising directly from this report.
- 3.3 **Workforce** – There are no workforce implications arising directly from this report.
- 3.4 **Other** – There are no other implications arising directly from this report.

### 4: Recommendations

It is recommended that the Audit & Performance Systems Committee:

1. Note the content of the ISA 260: Audit report, as at appendix A.
2. Note that the full external audit report will be presented to the committee in September 2018.



# Aberdeen City Integration Joint Board

ISA 260: Audit report to those charged with governance and the  
Controller of Audit - year ended 31 March 2018

8 June 2018

**DRAFT**

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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 Aberdeen City 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 section of this report.

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

## **Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the IJB, telephone 0131 527 6673, email: [andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to [hugh.harvie@kpmg.co.uk](mailto: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 Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.





# Introduction

## Scope and responsibilities

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### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Aberdeen City 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.

This report to those charged with governance is designed to summarise our opinions and conclusions on significant issues arising from the 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 were set out in our audit strategy document which was presented to the Audit and Performance Systems Committee at the outset of our audit.

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 of wider scope areas. We will comment on these areas in the Annual Audit Report to be issued in September 2018. For 2017-18 we are reporting in two phases, as a result of the shorter timeframe for audit of the financial statements compared to prior years.

### Accountable officer responsibilities

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

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

### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Code. Appendix five sets out how we have met, or plan to meet by September 2018, each of the responsibilities set out in the Code.

### Scope

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

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

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

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

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

# Financial statements and accounting

## Audit conclusions

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### Audit opinion

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

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

### Financial reporting framework, legislation and other reporting requirements

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

No audit misstatements were identified during the audit.

### Written representations

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

# Financial statements and accounting

## 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 £2.5 million for the IJB's financial statements. This equates to 1% of expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality: for the IJB accounts our performance materiality was £1.875 million. We report all misstatements greater than £125,000.

### 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;
- reviewed internal audit reports as issued to the Audit and Performance Systems 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 judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended Audit and Performance Systems Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

### 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:

- Management override of controls fraud risk; and
- Fraudulent revenue recognition;

Other focus areas:

- Completeness and accuracy of expenditure; and
- Financial sustainability.

No further significant risks or other matters were identified during our audit work.

# Financial statements and accounting

## Significant risks

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the 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>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the IJB.</p> <p>Strong oversight of finances by IJB management, as well as management at the executive level, provides additional review of potential material errors caused by management override of controls.</p> <p>In line with our methodology, we evaluated the controls in place over budget monitoring, and agreed the total income, expenditure and debtor balances to confirmations from the partner organisations.</p>	<p>There were no specific circumstances identified which would indicate additional risk of management override of controls. No overrides in controls were identified.</p> <p>We consider the budget monitoring control to be robust, however given that tolerance levels are not defined up front, our audit methodology does not allow us to place reliance on this control.</p>
<p><b>Fraudulent income recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p>	<p>As set out in our audit strategy document, the Board receives funding from Aberdeen City Council and NHS Grampian. These are agreed in advance of the 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.</p> <p>We have obtained confirmations of income from each of the partner organisations.</p>	<p>No exceptions were noted in agreeing income to partner organisation confirmations.</p> <p>We are satisfied that income is recognised appropriately, in the correct financial year and in line with the CIPFA Code.</p>

# Financial statements and accounting

## Other focus areas

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OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Financial sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board given the challenging environment where funding is reduced and efficiency savings are required</p>	<p>In order to assess the ability of the IJB to continue to deliver services in the medium to long term, we have reviewed the following key documents:</p> <ul style="list-style-type: none"> <li>— Integration scheme (as updated in March 2018).</li> <li>— Reserves strategy.</li> <li>— Medium term financial strategy.</li> <li>— Transformation programme.</li> </ul> <p>We enquired of the external auditors of Aberdeen City Council (KPMG) and NHS Grampian (Audit Scotland) as to the financial sustainability of those organisations.</p>	<p>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. In response, plans have been prepared to close the funding gap through a combination of service transformation, efficiency savings and service redesign. Within total reserves of £8.3 million, a risk fund of £1.75 million is held as at 31 March 2018 to provide some cover for unexpected events or emergencies.</p> <p>Having enquired of the external auditors of the partner organisations which share the funding obligations of the IJB, we are not aware of financial sustainability qualifications for those organisations.</p> <p>In view of the medium term financial strategy, reserves position and the financial position of the partner organisations, we consider that the IJB is financially sustainable. Management needs to continue to ensure that the robust financial plans are monitored closely to identify any potential overspends as soon as possible to allow mitigating action to be taken.</p> <p>We will provide fuller consideration of financial sustainability in the Annual Audit Report, as part of the wider scope dimensions.</p>

# Financial statements and accounting

## Other focus areas (continued)

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OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p><b>Completeness and accuracy of expenditure</b></p> <p>The Board receives expenditure forecasts from Aberdeen City Council and NHS Grampian as part of the annual budgeting process. There is a risk that actual expenditure and resulting funding requisition income is not correctly captured.</p>	<p>The closing balances with the partner organisations were agreed to confirmations from each body, and the split of expenditure on the comprehensive income and expenditure statement agreed to reports from the partner organisations.</p> <p>The IJB does not post journals throughout the year, with financial processing taking place at the partner bodies. Consolidation adjustments are posted as part of the year end accounts preparation process. These post-closing entries were tested without exceptions identified.</p>	<p>The expenditure disclosed in the accounts is complete and accurate.</p>

# Financial statements and accounting

## 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 entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

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

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

Audit Scotland issued a guidance document in April 2018, *Good practice note on improving the quality of local authority accounts: Integration joint boards*. We considered this report when reviewing the draft financial statements of the IJB and suggested amendments as a result to support in good practice financial reporting. Notwithstanding this, we consider the draft financial statements to be of good quality.

There were no new accounting standards adopted by the Code during 2017-18 which affected the IJB.

There are no significant accounting estimates.

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

### Future accounting and audit developments

The following developments will be relevant to the IJB in future years, although given the nature of the financial statements will not impact significantly.

CIPFA / LASAAC consulted on amendments to the Code for IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers in 2017. The 2018-19 Code has been updated to include IFRS 9 and IFRS 15.

Other changes to the 2018-19 Code include:

- additional guidance on the principles of revenue recognition in section 2.1 (Concepts), to coincide with the introduction of IFRS 15;
- updates to section 3.4 (Presentation of Financial Statements) to reflect the disclosure requirements under IAS 7 *Statement of Cash Flows: Disclosure Initiative*; and
- Section 3. clarification of the reporting requirements for debtors and creditors in section 3.4 following removal of the disclosure requirements for the analysis of debtors and creditors in sections 5.2 (Debtors) and 8.1 (Creditors). Section 3.4 includes a number of clarifications on the segmental reporting arrangements in the Code.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. The consultation period for the inclusion of IFRS 16 in the 2019-20 Code ends on 7 September 2018. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard.

# Financial statements and accounting

## Financial statements preparation and internal controls

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### Financial statements preparation

Draft financial statements and high quality working papers were provided at the start of the audit fieldwork on 21 May 2018. This included the management commentary and annual governance statement. The timetable is earlier than for other integration joint boards and is required to meet the group reporting requirements of Aberdeen City Council. Management's achievement of the deadline whilst maintaining quality is commendable.

In advance of our audit fieldwork we issued a 'prepared by client' request, a list of required analyses and supporting documentation. The standard of the documentation was good and there was evidence of accountability and ownership of working papers. Responses to audit queries were answered effectively and openly and were addressed on a timely basis.

### Internal controls

Aberdeen City Council and NHS Grampian are the partner bodies of the IJB. All financial transactions of the Board 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. As a result we do not test controls over financial transactions, instead we perform a substantive audit.

### Internal audit

Internal audit provides the Board and Chief Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. Each partner organisation has its own internal audit service, with Chief Internal Auditor of Aberdeenshire Council also holding the appointment of Chief Internal Auditor of the IJB.

The IJB takes assurance from the results audit work carried out at Aberdeen City Council, NHS Grampian and the IJB itself. For 2017-18 the Board's Chief Internal Auditor concluded that reasonable assurance can be placed on the adequacy and effectiveness of the Board's systems of governance, risk and internal control.

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ("PSIAS"), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. We reviewed internal audit reports and conclusions, and through discussion obtained the views of internal audit of risks of fraud within the Council. We consider the internal audit service to be appropriate for the scale of the IJB's operations.

The review of internal audit reports and conclusions do not indicate additional risks and there was no impact on our audit approach.



# Financial statements and accounting

## Management reporting in financial statements

**DRAFT**

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p><b>Management commentary</b></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 annual accounts.</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>We are satisfied that 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 CIPFA template IJB accounts and are content with the proposed report.</p> <p>We provided management with some minor suggestions relating to how the management commentary could be enhanced and where additional information disclosures should be made.</p>

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# Financial statements and accounting

## Management reporting in financial statements (continued)

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REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p><b>Remuneration report</b></p>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<p><b>Annual governance statement</b></p>	<p>The statement for 2017-18 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the governance framework of the IJB through the application of the Nolan principles, a review of the governance framework of the partner organisations, and a review of effectiveness of the IJB. The governance statement was revised by management for 2017-18, drawing on good practice disclosures from Aberdeen City Council and NHS Grampian.</p>	<p>We consider the governance framework and 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>









# Appendices

# Required communications with the the Audit and Performance Systems Committee

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Type	Response
<b>Our draft management representation letter</b>	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018.
<b>Adjusted audit differences</b>	 There were no adjusted audit differences.
<b>Unadjusted audit differences</b>	 There were no unadjusted audit differences.
<b>Related parties</b>	 There were no significant matters that arose during the audit in connection with the entity's related parties.
<b>Other matters warranting attention by the Audit and Performance Systems Committee</b>	 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.
<b>Control deficiencies</b>	 There were no control deficiencies noted.
<b>Actual or suspected fraud, noncompliance with laws or regulations or illegal acts</b>	 No actual or suspected fraud involving 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.
<b>Significant difficulties</b>	 No significant difficulties were encountered during the audit.

Type	Response
<b>Modifications to auditor's report</b>	 None.
<b>Disagreements with management or scope limitations</b>	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>	 No material inconsistencies were identified related to other information in the Management commentary, the remuneration report of the annual governance statement.  The Management commentary is fair, balanced and comprehensive, and complies with the law.
<b>Breaches of independence</b>	 No matters to report. The engagement team and others in the firm, as appropriate, and the firm have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>	 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.
<b>Significant matters discussed or subject to correspondence with management</b>	 No significant matters arising from the audit were discussed, or subject to correspondence, with management.

# Appendix two

## Auditor independence

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### **Assessment of our objectivity and independence as auditor of the Aberdeen City Integration Joint Board (“the IJB”)**

Professional ethical standards require us to provide to you at the completion stage 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.

We will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

### **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 directors 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 APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- 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**

We have considered the fees charged by us to the IJB for professional services provided by us during the reporting period, as agreed with the Audit and Performance Systems Committee.

No non-audit services were provided to the IJB and no future services have been contracted or had a written proposal submitted.

### **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

# Prior year recommendations

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We have not identified any new audit recommendations during our audit for the year ended 31 March 2018.

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

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
<i>Audit dimension: Financial management</i>		<b>Grade three</b>	
<p>There were some delays during the audit due to incorrect versions of documents being provided in the first instance. It was found that the IJB does not have a document management system, so collaborative work between the partners takes place on e-mailed documents.</p> <p>There is a risk that without proper version control in place, incorrect figures could be used to populate the financial statements with erroneous changes not tracked. Where there are deadlines for accounts preparation, these inconsistencies may not be noted.</p>	<p>The IJB should consider implementing a document management system with version control features to allow collaborative working to take place with a greater degree of oversight.</p>	<p><b>Management response:</b> Agreed</p> <p><b>Responsible officer:</b> Alex Stephen</p> <p><b>Implementation date:</b> 31 March 2018</p>	<p>Complete, no issues noted during the 2017-18 audit</p>

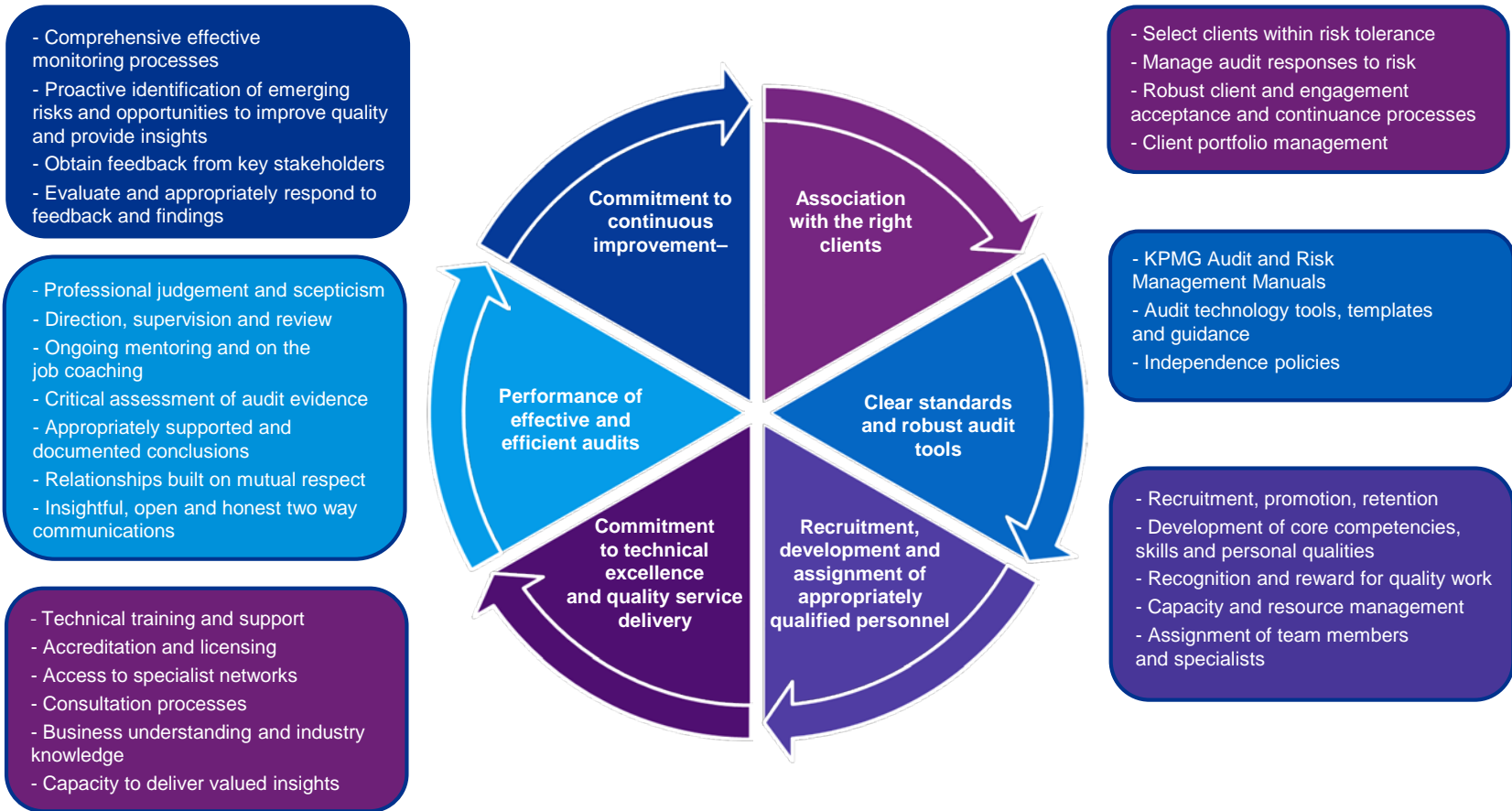
# KPMG's Audit quality framework



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Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

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# Appointed auditor's responsibilities

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AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
<b>Statutory duties</b>	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
<b>Financial statements and related reports</b>	<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, remuneration reports, grant claims and whole of government returns.</p>	<p>Page 4 summarises the opinion we have provided.</p> <p>Pages 11 and 12 report on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.</p>
<b>Financial statements and related reports</b>	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.
<b>Wider audit dimensions</b>	<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"> <li>— Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>— Suitability and effectiveness of corporate governance arrangements;</li> <li>— Financial position and arrangements for securing financial sustainability;</li> <li>— Effectiveness of arrangements to achieve best value;</li> <li>— Suitability of arrangements for preparing and publishing statutory performance information</li> </ul>	We will set out our conclusions on wider scope and best value in our Annual Audit Report which will be issued in September 2018.





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