



Aberdeen City Integration Joint Board

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Annual Audit Report to the Members of Aberdeen Integration Joint Board and the Controller of Audit for the year ended 31 March 2021

14 June 2020

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About this report

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

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

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

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

Complaints

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

Executive summary

Audit conclusions

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We plan to issue an unqualified audit opinion on the annual accounts of Aberdeen City Integration Joint Board (“the IJB” or “the Board”) following their approval by the IJB.

We identified one significant risk in the audit of the IJB at the outset of the audit, being the management override of controls fraud risk. As documented on pages 10 to 12, we have concluded satisfactorily in respect of the significant risk and the audit focus areas identified in the audit strategy document.

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

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Financial management and financial sustainability

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The IJB faces ongoing financial pressures due to increasing needs, funding constraints and the cost pressures faced by the two partners. Both partners have budgeted for required savings within their respective organisations. We propose to conclude that the IJB is a going concern as a result of the Integration Scheme and the financial sustainability of the partners, together with the £2.5 million risk fund and other reserves held by the IJB, **however, at the time of drafting internal technical consultation regarding going concern is incomplete (page 8)**. We are satisfied that the annual refreshing of a five year medium term financial framework helps the IJB to plan for future pressures, and it supports officers in discussions of future budget settlements.

Financial position

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The IJB has a responsibility to set a breakeven budget each year and had set a budget of £330.3 million which was then revised during the year to £327.3 million. The Board planned to deliver savings of £5.7 million. During late 2020-21 the IJB received a significant amount of Scottish Government funding, in quarter 4, which added to the trading underspend of £5.2 million led to an overall underspend of £15.6 million. This contributed to an overall increase of earmarked reserves to £18.2 million (see detail page 7).

The £12.8 million of underspend was due to demand underspend of £5.2 million and £10.4 million of increase in Scottish Government funding late in 2020-21.

COVID-19 impact

The impact of Covid-19 on the 2020-21 financial year was significant. The Scottish Government requested that the IJBs produce a mobilisation plan early in April and initial costs of the COVID-19 going forward were estimated at £15.6 million. The Cabinet Secretary approved the funding in principle. In Total direct Covid-19 related expenditure was disclosed as £17.2m, and other indirect Covid-19 demand pressures on secondary expenditure of £1.6m so a total of additional expenditure of £18.8m. This expenditure has been fully met by additional income either direct from Scottish Government through the two partners in the form of various grants and income streams.

Accounting for Covid-19 grants

Guidance was provided in late May 2021 as to the correct accounting treatment for the various Covid-19 grants. The IJB have correctly accounted for the grants where acting as principal, and where acting as agent an additional disclosure has been made to the financial statements.

Introduction

Scope and responsibilities

Purpose of this report

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

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the IJB and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Risk, Audit and Performance Committee (“the RAPC”) on 27 April 2021.

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

Accountable officer responsibilities

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

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

Auditor responsibilities

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

Scope

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

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

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

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance, and our presentation to the Integration Joint Board, together with previous reports to the RAPC throughout the year, discharges the requirements of ISA 260.

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Financial position

Overview

The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the IJB should therefore be prepared in accordance with the 1973 Act and the 2020-21 Code of Practice on Local Authority Accounting in the United Kingdom (“the CIPFA Code”).

The Board is responsible for the strategic planning and delivery of health and adult social care services in Aberdeen. The Board is responsible for the services as set out in the Integration Scheme, which includes ‘hosted’ services which are provided by the IJB on behalf of the other Integration Joint Boards in Grampian: Aberdeenshire and Moray.

Financial management overview

The IJB budget process begins in September each year with final approval by March.

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

Snapshot of 2020-21

Planned/budget

Funding contributions from Aberdeen City Council £94.3 million	Funding contributions from NHS Grampian £236.0 million	Net expenditure £330.3 million	Break even on provision of services £0 million
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Actual

Funding contributions from Aberdeen City Council £93.2 million	Funding contributions from NHS Grampian £273.0 million	Net expenditure £350.6 million	Surplus on provision of services £15.6 million
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Legislation empowers the Board to hold reserves. The Integration Scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. It highlights that in the event of an underspend at the year end, it will be retained by the IJB as reserves following agreement with the partners, unless the following conditions apply:

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

During 2020-21, the IJB underspent against its income. This was mainly due to unspent funding provided by the Scottish Government to the IJB via NHS Grampian. The monies received in quarter four were required to be earmarked if not used. The IJB have £10.4 million of earmarked funds of the £15.6 million surplus. The underspend has been appropriately reflected as part of the IJB’s reserves movements during the year.

Reserves Movement	£ million
Opening balance as at 31 March 2020	(2.6)
Planned income	(330.3)
Increased Scottish Government income via NHS Grampian.	(35.9)
Planned expenditure	330.3
Additional expenditure	20.3
Closing balance as 31 March 2021	(18.2)

Financial statements and accounting

Financial position (continued)

2020-21 Financial position

A surplus of £15.6 million is reported in the comprehensive income and expenditure statement (“CIES”), which was funded in the main from late Scottish Government monies which are earmarked for expenditure in 2021-22.

Comprehensive income and expenditure statement

The IJB has a responsibility to set a breakeven budget each year. For 2020-21 this was initially agreed to be delivered via the generation of savings, however as a result of the Covid-19 pandemic and the response from ACHSCP it was not possible to deliver all the savings initially identified. In order to protect IJB's from being financially disadvantaged as a result of the pandemic response the Scottish Government agreed to fund all the additional costs of Covid-19, including undelivered savings.

The budget is updated and revised throughout the year, based on known pressures and actual results achieved. This is reported to the Board to challenge and approve the amendments.

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Key CIES underspends and overspends (see overall table)

- Learning disabilities: underspend £1.6 million. Underspends on homecare, day care offset by an overspend on residential care.
- Aberdeen City share of hosted health services underspend £1.3 million. This is due to most services reporting underspends, excluding Grampian Medical Emergency Department which is reporting an overspend.
- Older people and physical and sensory disabilities: underspend of £1.2 million. This is due to a correction in rental income offset by an increase in commissioned services during 2020-21.
- Integration and change fund: underspend of £6.1 million, however spend earmarked for 2021-22
- Primary care Improvement fund underspend of 32.4 million, spend earmarked for 2021-22

Planned balanced position

To achieve a balanced budget the IJB had a savings target of £5.7 million, estimated budget pressures of £13.4 million and agreed additional funding of £7.7million. The outturn position (removing the additional funding received late from the Scottish government £10.4 million) is showing a surplus of £5.2 million. This equates to a mixture of reduced demand and achievement of savings plans. The IJB updates the Board on a quarterly basis on its savings target.

Expenditure	Full year revised budget (£000)	2020-21 Actual (£000)	(Under) / over spend (£000)
Community health services	36,803	36,773	30
Aberdeen City share of hosted health services	24,378	23,010	1,368
Learning disabilities	35,955	34,345	1,610
Mental health and addictions	21,594	21,098	496
Older people and physical and sensory disabilities	80,192	79,025	1,167
Directorate	1,251	326	925
Criminal Justice	92	92	0
Housing	746	746	0
Primary care prescribing	40,365	40,447	(82)
Primary care	43,170	42,513	657
Out of area treatments	2,000	2,751	(751)
Set-Aside	47,802	47,802	0
Direct Covid-19 Costs	17,240	17,240	0
Public Health	2,171	1,908	263
Total mainstream	353,759	348,076	5,683
Integration and change	6,045	0	6,045
Primary care improvement fund	4,152	1,684	2,468
Action 15 mental health	1,196	503	693
Alcohol drugs partnership	1,086	341	745
Total mainstream and funds	366,238	350,604	15,634

Source: Finance update as at 31 March 2021

Financial statements and accounting

Financial position (continued)

Balance sheet

As the IJB does not own fixed assets or hold bank accounts, the balance sheet is made up solely of amounts owing to and from the partner organisations and the resulting reserves.

The debtors and creditors balances as at 31 March 2021 consist of £14.4 million owed by NHS Grampian ("NHSG") and £3.8 million owed by Aberdeen City Council ("ACC"). These amounts relate to various earmarked reserves to be spent in 2021-22

A list of the earmarked reserves created from the late Scottish Government monies via NHS Grampian.

The IJB have increased its funds during the year through a combination of underspends in some services but also the significant Scottish government funding provided late in 2020-21 which is earmarked for specific projects. The risk fund was increased to £2.5 million during the year. The risk fund is intended to support the health and social care services provision and protect against any budget pressures during the year.

We provide further narrative on financial sustainability and financial management on pages 16 to 20.

Earmarked Reserves	2020-21 (£000)	2019-20 (£000)
Risk Fund	2,500	£1,271
Integration and Change	6,763	-
Primary Care Improvement Fund	2,541	73
Alcohol Drugs Partnership	1,321	576
Earmarked External Funding	1,007	682
Community Living change	877	-
Action 15	693	-
Covid-19 Funding	2,534	-
Total 31 March 2021	£18,236	£2,602

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Source: Audited annual accounts for the year ended 31 March 2021

Audit conclusions

Audit opinion

Following approval of the annual accounts by the IJB, we plan to issue an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2021, and of the surplus for the year then ended.

KPMG has determined that for 2020-21, there is a rebuttable presumption that at least a material uncertainty will exist in relation to going concern in all audit opinions. After consulting with our technical team we expect to rebut this presumption and concluded that not material uncertainty is required in our report in relation to the Integration Joint Board accounts, however at the time of drafting this consultation is incomplete.

There were 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 2020-21 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.

Statutory reports

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

Other communications

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

Audit misstatements

There was one misstatement identified by management in relation to double counting the reserve transfer which resulted in double counting of council's expenditure by £1.5 million. This was adjusted between funding from council and the NHS and the effect on the Comprehensive Income and Expenditure Statement was Nil. There were other two issues noted in the financial statements proactively by management. These concerned the set aside total and the Chief Officer's pension disclosure. These were updated and are not considered audit adjustments. There were also minor presentational and disclosure adjustments made by management as a result of our audit.

Written representations

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

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in the audit strategy document. On receipt of the annual accounts 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 £3.5 million for the IJB's annual accounts. This equates to 1% of cost of services expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. Our performance materiality was £2.595 million. We report all misstatements greater than £173,000.

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 RAPC to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended RAPC meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

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

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

There were two issues noted in the financial statements proactively by management. These concerned the set aside total and the Chief Officer's pension disclosure. These were updated and are not considered audit adjustments.

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

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

Significant risks (page ten of this report):

- management override of controls fraud risk

Other focus areas (page 11 and 12 of this report):

- financial sustainability (also a wider scope area)
- completeness and accuracy of expenditure; and
- COVID-19 impact (identified after the planning stage)

Wider scope areas (page 15 of this report):

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

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Financial statements and accounting

Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Management override of controls fraud risk*</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>We agreed the total income, expenditure and debtor balances to confirmations from the external 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>Income recognition fraud risk (rebutted)</p> <p>Professional standards, as interpreted by Practice Note 10, require us to make a rebuttable presumption that the fraud risk from revenue recognition and expenditure are significant risks.</p>	<p>As set out in our audit strategy the Board receives funding requisitions from Aberdeen City Council and NHS Grampian. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.</p> <p>The Board issues directions to Aberdeen City Council and NHS Grampian in order to direct those bodies to deliver services delegated by the Board. The Board makes these directions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.</p>	<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> <p>We concluded that additional funding received from the Scottish Government was accounted for correctly.</p> <p>We are satisfied that expenditure has been appropriately recognised and no indication of fraudulent recognition.</p>

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

Financial statements and accounting

Other focus areas

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Financial sustainability</p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board given the challenging environment where funding is reduced and efficiency savings are required</p>	<p>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"> — Integration Scheme (as updated in March 2018). — Reserves strategy. — Medium term financial framework. — Transformation programme. 	<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.</p> <p>During the year the total reserves increased from £2.6 million to £18.2 million. This is due to both in year surplus, and also £10.4 million of Scottish Government funding received late in the year for earmarked projects.</p> <p>The impact of the COVID-19 mobilisation plan on 2020-21 budget was that £17.2 million direct local mobilisation spend was recognised, and a further £1.6 million of indirect costs incurred during the year. This was funded by Scottish Government through the partner bodies.</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 should continue to ensure that the financial plans are robustly monitored closely to identify any potential overspends as soon as possible to allow mitigating action to be taken.</p>

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Financial statements and accounting

Other focus areas (continued)

OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
<p>Completeness and accuracy of expenditure</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. 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>
<p>COVID-19 related grants</p> <p>As part of the economic support provided by the Scottish government, the IJB will need to consider the accounting treatment for Covid-19 related grants. This includes the £500 additional payment due to some key workers.</p> <p>Due to the complexity, development of guidance and relative inexperience of administering the schemes, there is an element of risk of fraud and error in respect of payments made and disclosure.</p>	<p>We inquired of Officers how the partners and the IJB accounted for the grants in respect of potential accruals, prepayments and provisions.</p> <p>We inquired of Officers to determine how the partner bodies administer any grants or payments provided, and how the IJB obtain sufficient assurance that these payments are correctly made.</p> <p>We considered the LASAAC guidance on Accounting for Covid-19 Grants / funding streams V5.4 and whether the required accounting treatment within the annual accounts is appropriately made in respect of guidance and the 2020-21 Code.</p>	<p>The IJB have gained sufficient assurance as necessary from the partner bodies that they have accounted for the grants and funding in line with the LASAAC guidance and accounted for these as “principal”, including the gross income and expenditure, where applicable.</p> <p>Where the partner bodies have accounted for the grants and funding in line with guidance as an “agent” they have not included the income and expenditure and have disclosed these as an agent in the disclosure notes.</p> <p>The IJB have included “principal” grants as income and expenditure, and where “agent” the IJB have agreed to update the financial statements with a disclosure note of the Covid-19 grants where acting as an agent as outlined in the LASAAC guidance. This disclosure note has still to be audited and concluded upon at time of writing.</p>

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Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p>Management commentary</p>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts.</p> <p>We also review the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts.</p>	<p>The information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.</p>
<p>Remuneration report</p>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>The information contained within the revised remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<p>Annual governance statement</p>	<p>The statement for 2020-21 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the IJB's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework. It also goes on to suggest improvement activities undertaken during the year over specific corporate governance principles.</p> <p>We review the annual governance statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the delivering good governance in local government framework.</p>	<p>We had discussions with the IJB, reviewed early draft of the Annual Governance Statement and shared applicable guidance.</p> <p>We understand the challenges of updating the review of the system of internal controls in the current situation and note that a review has been undertaken to the extent possible.</p> <p>We are satisfied with the approach taken by the IJB and consider the governance framework and revised annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.</p> <p>We recommended that it would be sensible to add a small statement about the challenge and delivery of the Internal Audit plan</p>

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Qualitative aspects and future developments

Qualitative aspects

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

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

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

There were no new accounting standards adopted by the Code of Practice on Local Authority Accounting during 2020-21 which affected the IJB.

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

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

Future accounting and audit developments

The new standards will be set out in Appendix C to the 2021-22 Code of Local Practice on Local Authority Accounting in the United Kingdom and are expected to include IFRS 16 Leases. This is not expected to have an impact on the IJB's annual accounts.

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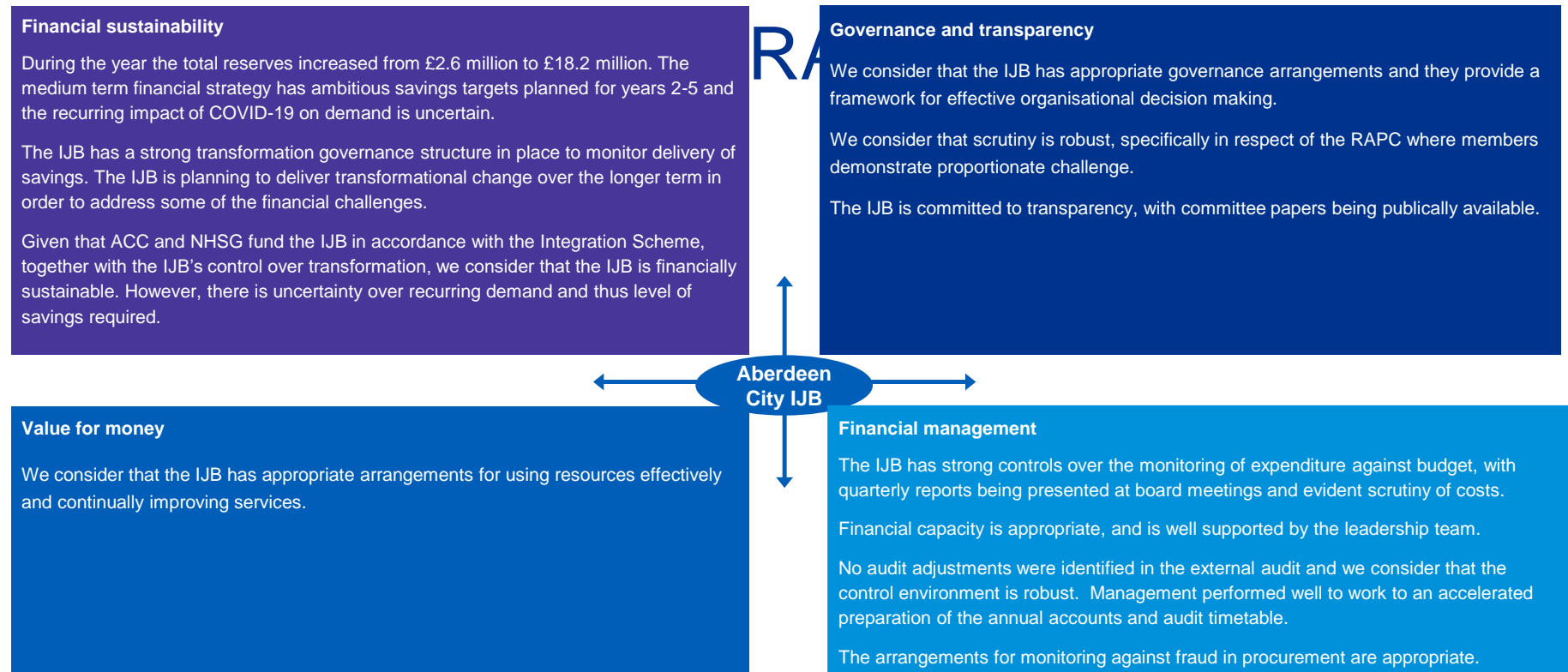
Wider scope and Best Value

Audit dimensions introduction and conclusions

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

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

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



Wider scope and Best Value

Financial sustainability

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

Financial sustainability is a risk to the IJB given the challenging environment, where funding is reducing in real terms and efficiency savings are required. In assessing financial sustainability we consider whether the IJB is able to balance budgets in the short term and whether longer term financial pressures are understood and are planned for, as evidenced by the IJB's financial strategies and plans.

Budget setting

The IJB receives budget allocations from NHSG and ACC. The IJB budget is set one year in advance, in line with the current practice of single year budget allocations from Scottish Government. Management used the confirmed funding for the 2021-22 budget to develop a five year medium term financial strategy. Projections for 2021-22 are based on historic trends and planning assumptions. The strategy is assumptions are based on the current Scottish Budget process.

The total final approved funding for IJB in 2021-22 is £334.03 million, which is a 1.1% increase from the £330.3 million prior year initial budget. Around 71% of this funding comes from NHSG and 29% from ACC. In 2021-22 an additional £2.7 million Scottish Government financial settlement was passed in full from ACC to the IJB.

Both partners are facing financial challenges with demand exceeding resources available and transformation programmes being underway. These financial pressures directly impact the IJB as funding from partners is the IJB's sole source of recurring funding, and the partners' savings targets are naturally reflected within the IJB budget.

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Local pressures have also impacted the five year financial plan, including pay award, transitioning children with learning disabilities into the adult care need for locums, prescribing, community mental health spend and demographic uplift in costs.

	2021-22	2022-23	2023-24	2024-25	2025-26
	£000	£000	£000	£000	£000
Budget Pressures	2,631	6,275	6,419	6,566	6,719
New Requirements	3,400	2,861	2,947	3,035	3,126
Total Pressures	6,031	9,136	9,366	9,601	9,845
Funding from the Covid19 – Local Mobilisation Plan 20-21	(4,250)	-	-	-	-
Funding Uplift – Aberdeen City Council	(2,715)	(2,300)	(2,300)	(2,300)	(2,300)
Funding Uplift - NHS Grampian	(2,100)	(2,100)	(2,100)	(2,100)	(2,100)
Total Increased Funding	(9,065)	(4,400)	(4,400)	(4,400)	(4,400)
Total Savings Required	(3,034)	4,736	4,966	5,201	5,445

Every year the Board refreshes its five year medium term financial strategy. In the previous years the IJB increased its risk fund for any contingencies. There is £2.5 million of the fund left in the reserves and the Board is currently considering its future use. The reserves at 31.3.2021 included reserves for Covid-19 funding which is planned to be used in 2021-22

We note that the level of savings required next year has already been achieved however there are significant challenges in the later years in the plan presents a financial sustainability challenge in the future years.

Wider scope and Best Value

Financial sustainability (continued)

Reserves strategy

The IJB approved a reserves policy in October 2016 which sets out the statutory and regulatory framework for reserves and its operation. The position, set out in the table below shows the reserves held at 31 March 2021. The IJB is planning to consider the future of the funds in the current financial year.

2020-21 reserve movements	£ million
Opening reserves (as 1 April 2020)	2.6
Increase in risk fund	1.2
Increase in integration and change fund	6.8
Increase in Primary Care reserve	2.5
Increase in alcohol drugs partnership reserve	0.7
Increase in Earmarked funding reserve	0.3
Increase in Community living change fund	0.9
Increase in action 15 fund	0.7
Increase in Covid-19 funding reserve	2.5
Closing reserves (as at 31 March 2021)	18.2

Risk sharing

The Integration Scheme sets out the process to be followed should the IJB overspend against the agreed budget. The Chief Finance Officer is expected to manage the budget to ensure that there are no overspends. Where an unexpected overspend is likely, the Chief Finance Officer should agree corrective action to mitigate the overspend. Where this does not resolve the gap, agreement must be made between the partners, in conjunction with the executive team, to agree a recovery plan to balance the budget.

Where this is unsuccessful and the IJB overspends at the year end, uncommitted reserves are applied to the overspend firstly and the remaining overspend is either met by a voluntary additional one-off payment from a partner or the partners make joint additional payments proportionate with their respective share of the IJB baseline budget.

This arrangement gives the IJB comfort that overspends will ultimately be met by the partners.

While the reserves levels are decreasing the existence of this legal framework allows the IJB to prepare the annual accounts on a going concern basis.

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COVID-19 impact

The impact of Covid-19 on the 2020-21 financial year was significant. The Scottish Government requested that the IJBs produce a mobilisation plan early in April and initial costs of the COVID-19 going forward were estimated at £15.6 million. The Cabinet Secretary approved the funding in principle, however the level, method and terms of support has not been confirmed and is subject to being aligned with the mobilisation plans, accurately recorded, timely shared, and being reasonable. In Total direct Covid-19 related expenditure was disclosed as £17.2m, and other indirect Covid-19 demand pressures on secondary expenditure of £1.6m so a total of additional expenditure of £18.8m. This expenditure has been fully met by additional income either direct from Scottish Government through the two partners in the form of various grants and income streams.

Late funding was received for a number of earmarked schemes late in 2020-21 which has increased reserves by £10.3 million. This funding will be needed to meet demand in 2021-22.

The 2021-22 budget and the Medium Term Financial Framework were approved taking account of the known facts around Covid-19 including some assumptions on whether the demand created by Covid-19 is recurring or will change over time. This will bring uncertainty in both the planning and probable delivery of the 2021-22 budget. However on review of the required savings in 2021-22 (negative) the budget has clear flexibility built into this to meet changing demands..

Wider scope and Best Value

Financial sustainability (continued)

COVID-19 introduced a new layer of financial pressures and there is an expectation that the care and health services will be delivered by the public service organisations, including IJBs.

Transformation programme

The IJB is in its fifth year of operation and has ongoing transformation programme. The Board receives regular updates on progress towards transformation projects. Key decisions are presented to the Board for approval. The RAPC also receives detailed updates into transformation progress including 'deep dives' into specific areas at request. The 2019-22 strategic plan was agreed in March 2019, and has the following high level aims:

- Prevention
- Resilience
- Personalisation
- Connections
- Communities

The IJB have agreed a number of workstreams aligned to the strategic plan including:

- Programme for transformation Managing demand;
- Conditions for change;
- Accessible and responsive infrastructure;
- Data and digital/prevention; and
- Future service redesign.

As noted in our previous Annual Audit Reports, a strong governance structure has been put in place to ensure effective operational and executive oversight of the transformation program. The programme has priority projects which are considered to have the largest potential impact and those that support the IJB's plans to shift towards a more person-centred and community-focussed health and social care service.

Efficiency savings

Wider efficiency savings have been identified as part of the five year plan, acknowledging that transformational savings will take longer to realise. These measures include:

- Service redesign: focus on delivering savings from continuous review of service provision to ensure the best service can be delivered within budget.
- Medicines management: focus on mitigating the risk of rising costs of primary care medicines, by introducing a range of measures to control prescribing volumes and reduce costs per item.
- Out of Area placements
- Delivering infrastructure for whole system to be connected

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Conclusion

Given that ACC and NHSG fund the IJB in accordance with the Integration Scheme, together with the IJB's control over transformation, we consider that the IJB is financially sustainable. However, there is a risk and uncertainty in respect of the impact of COVID-19.

Significant budget savings are included within the five year plan and the IJB has a strong transformation governance structure to monitor delivery of savings. High level themes have been developed to support budget savings. The challenging targets and uncertain recurring impact of COVID-19 and financing arrangements indicate uncertainty into 2021-22 however outline plans show appropriate arrangements for financial sustainability in place.

Wider scope and Best Value Financial management

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

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

Budgetary controls

The IJB's financial management comes under an appropriate degree of scrutiny, with budgets monitored at IJB, Local Authority and NHS level.

The IJB produces a quarterly finance update which is taken to both the Board and the RAPC. From a review of the minutes and attendance at meetings, it is evident that there is a sufficient level of scrutiny, and these reports have allowed the IJB to address overspends in a timely fashion.

Furthermore, a monthly finance update is provided from NHS Grampian to IJB management.

We reviewed the budgeting process including the monitoring of budgets throughout the year. We found that budget reports were presented to the Board and RAPC on a timely basis and that overspends are appropriately discussed and challenged.

Audit Scotland focus area: risk of fraud and corruption in procurement

The IJB does not have its own procurement section and is relying on the processes put in place by its funding bodies. We enquired as to how the IJB is getting assurances that these processes are effective and help mitigating risk of fraud in corruption.

The IJB directs the Council to carry out procurements and enter into contracts for social care services. The IJB then has the assurance that the Commercial and Procurement Shared Service (CPSS), including the social care team, follow the Aberdeen City Council scheme of governance and Procurement Regulations for all its activity.

All staff have to have delegated procurement authority, after undertaking the appropriate training.

We consider the IJB arrangements in relation to procurement appropriate.

Financial regulations

The IJB has standing financial regulations which determine how spend can be authorised. The highest expenditure that can be approved by the Chief Officer is £50,000, with anything above that level having to go through the Board, which conducts its meetings in public.

Finance function capacity

The S95 officer is the chief finance officer, therefore has appropriate status within the IJB and access to the partner chief executive officers and Board members. The finance function consists of the chief finance officer, and other resources are used as required from ACC and NHSG finance teams. Finance function capacity is considered to be appropriate, and is supported by a full leadership team.

The IJB provides induction and ongoing training for both elected members and other Board members. There is an ongoing calendar of workshops which take place after most Board meetings to address upcoming subjects and are intended to give members the knowledge they need in order to provide appropriate scrutiny.

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Wider scope and Best Value Financial management (continued)

Annual accounts

The same as last year the annual accounts preparation continuous to be brought forward in order to adhere to the ACC accelerated timetable. Officers issued unaudited annual accounts to the Audit and Risk committee on 27 April 2021. The audit was conducted from early June 2021 and no audit adjustments were identified. Management performed well to accelerate the timetable whilst maintaining quality for the forth year in a row.

Conclusion

The IJB has appropriate controls over the monitoring of expenditure against budget, with quarterly reports going to public board meetings and evident scrutiny of costs.

Financial capacity is appropriate, and is well supported by the executive team.

Management performed well to further accelerate the annual accounts preparation and audit timetable.

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Wider scope and Best Value

Governance and transparency

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

Governance framework and decision making

The Board is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the IJB and for monitoring the adequacy of these arrangements. To assist in this role, the IJB developed an assurance framework called the Local Code of Governance 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. This Local Code is reviewed on an annual basis.

The Integration Scheme between ACC and NHSG also sets out key governance arrangements. The Board comprises a wide range of service users and partners including elected councillors nominated by ACC and directors nominated by NHSG. The RAPC reviews the overall internal control arrangements of the Board and makes recommendations to the IJB regarding signing of the Annual Governance Statement.

A second committee, the Clinical Care and Governance Committee, focuses on clinical assurance.

The Board and RAPC each met on a regular basis throughout the year. We review minutes from each to assess their effectiveness. We also periodically attend meetings of the RAPC. From this we have concluded that the committee is effective and provides robust challenge.

The board assurance and escalation framework sets out how the Board obtains the appropriate assurances on its activities. This framework includes the governance structure, systems and performance outcomes through which the Board receives assurance. It also describes the escalation process.

The Chief Officer provides overall strategic and operational advice to the IJB and is accountable for the delivery of services. The Chief Officer is also accountable to both the Chief Executive of ACC and the Chief Executive of NHSG and provides regular reports to both the council and the NHS Board.

On 3 September 2018 Sandra Macleod was appointed as the permanent Chief Officer, having previously been in the role of Managing Director of Bon Accord Care.

In response to the COVID-19 pandemic the IJB's decision making structure was streamlined. This was agreed to at a Board meeting on 24 March 2020. The temporary standing order was approved allowing members to participate in meetings remotely. All the meetings during 2020-21 have allowed members to participate in meeting remotely and continue into 2021-22 due to the ongoing Covid-19 pandemic.

Risk management

The risk management processes are based on IJB's work with the Good Governance Institute from 2016 when all of the IJB's governance arrangements, including carrying out a review of the IJB's assurance framework, were reviewed. This provided assurance that key risks to the achievement of integration objectives have been appropriately identified, communicated and addressed. The IJB has set out its risk appetite in its strategic plan and the risk appetite is reviewed by the Board on an annual basis. Risk registers are regularly updated and scrutinised by management and the RAPC.

The IJB is now updated on a weekly basis as to the key risks in relation to the COVID-19 and ongoing work to mitigate those. This includes the in-house services, commissioned services, GP services and their capacity, demand pressures and ability to deliver the services.

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Wider scope and Best Value Governance and transparency (continued)

Internal control

ACC and NHSG are the partner bodies. 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, including the work performed by internal audit.

Internal audit

The IJB has an internal audit function which undertakes reviews at both the IJB level and ACC level. NHS Grampian has its own internal audit function, however any reviews specific to the IJB are shared with the Board and RAPC. Internal audit completed one audit during 2020-21, with three further audits ongoing into 2021-22 due to the Coronavirus pandemic impact. There were no recommendations graded as 'major'. This delivery is less than planned and difficulties were encountered due to Covid-19.

The chief internal audit auditor concluded in the annual audit report that sufficient work was completed during the year, or was sufficiently advanced to enable it to conclude that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and control.

The chief internal auditor has carried out a self assessment of 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. He has confirmed that they meet with 12 of the 13 standards fully and generally conforms to the other with agreed actions to fully meet the requirements in place, We reviewed internal audit reports and conclusions, and through discussion obtained the views of internal audit of risks of fraud within the Council.

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

Fraud

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

Transparency

The public should be able to hold the IJB to account for the services it provides. Transparency means that the public has ready access to understandable, relevant and timely information about how the IJB is taking decisions and how it is using its resources.

Full details of the meetings held by the IJB and the RAPC committee are available through the ACC website. Members of the public can access committee papers and minutes of meetings, with exempt items minimised as much as possible. Reasons for papers being discussed in private are given in the meeting minutes. Members of the public are welcome to attend board meetings and RAPC meetings.

We have not found evidence to suggest that information is unjustifiably withheld from public scrutiny. Furthermore, members of the public can attend meetings of the IJB. Overall we concluded that the IJB is open and transparent.

Conclusion

We consider that the IJB has appropriate governance arrangements and they provide a framework for effective organisational decision making.

The IJB considered the governance framework at its formation, including working with the Good Governance Institute to ensure that structures and processes are appropriate.

We recommend that a small statement on the difficulties in the delivery of the IA plan is added to AGS.

We consider that scrutiny is robust and transparent.

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Wider scope and Best Value (continued)

Value for money

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

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

The Integration Scheme specifies the range of functions delegated by the ACC and NHSG to the IJB. The IJB is responsible for establishing effective arrangements for scrutinising performance, monitoring progress towards its strategic objectives, and holding partners to account.

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Performance indicators

Integration authorities are required to contribute towards nine national health and wellbeing outcomes which are intended to focus on the needs of the individual to promote their health and wellbeing, and in particular, to enable people to live healthier lives in their community. In order to review performance the IJB developed a performance management framework. The performance reports summarise performance to date towards the nine national health and wellbeing outcomes and the IJB's local strategic outcomes.

The IJB considers its performance reports quarterly by both the RAPC and the Board. The IJB will summarise its performance in its annual performance report planned for the September meeting. With the new approach the Board will also receive reports on the national and the ministerial strategic group indicators after the financial year end and this is planned for June meeting.

Value for money in key decisions

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








Conclusion

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









Appendices

Required communications with the RAPC

Type	Response
Our draft management representation letter	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2020.
Adjusted audit differences	 There were no adjusted audit differences.
Unadjusted audit differences	 There were no unadjusted audit differences.
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Performance Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We did not test any internal controls during our audit, and therefore have no deficiencies to report. Management retain the responsibility for maintaining an effective system of internal control.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

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Type	Response
Significant difficulties	 No significant difficulties were encountered during the audit.
Modifications to auditor's report	 There were no modifications to the auditor's report.
Disagreements with management or scope limitations	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	 No material inconsistencies were identified related to other information in the annual report, management commentary and annual governance statement. The management commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	 No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	 Over the course of our audit, we have evaluated the appropriateness of the IJB's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.

Appendix two

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.</p> <p>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.</p>	<p>Page 8 summarises the opinions we have provided.</p> <p>Page 13 reports on the other information contained in the financial statements, covering the management commentary, remuneration report and annual governance statement.</p>
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; - Suitability of arrangements for preparing and publishing statutory performance information 	We have set our conclusions over the audit dimensions on page 15.

Auditor independence

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

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

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

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

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General procedures to safeguard independence and objectivity

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

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

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

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

Summary of fees

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

Total fees charged by us for the period ending 31 March 2021 can be analysed as follows:	2020-21 £	2019-20 £
Audit of the Aberdeen City IJB financial statements	20,950	20,950
Total audit services	20,950	20,950
Non-audit services	-	-
Total	20,950	20,950

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



The contacts at KPMG in connection with this report are:

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