KPMG

Aberdeen City Integration Joint Board

Annual Audit Report to the Members of Aberdeen Integration Joint Board and the Controller of Audit for the year ended 31 March 2019

24 May 2019

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This document is DRAFT, pending signing of the annual audit opinion.

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

Executive summary

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Audit conclusions

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We intend 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 on 28 May 2019.

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.

Financial position

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The IJB reported an overspend against budget of £2.7 million for the year. The IJB has a responsibility to set a breakeven budget each year; for 2018-19 this was achieved through agreed use of Integration and Change Funds from carried forward reserves.

Budget pressures of £4.6 million were incorporated within the 2019-20 budget. The greatest of these being staff pay awards (£2.5 million) and an Aberdeen City Council funding reduction of £1.9 million. The IJB identified saving options of £4.6 million in order to mitigate the financial impact of the budget pressures.

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 services. We remain satisfied that the IJB is a going concern as a result of the Integration Scheme and the financial sustainability of the partners, together with the £2.5 million risk fund held by the IJB.

We are satisfied that the ongoing development of a five year medium term financial framework will help the IJB plan for future pressures, and it will support officers in discussions of future budget settlements. We consider the arrangements regarding financial management are effective.

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 under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the IJB and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit and Performance Systems Committee ("the APS") on 12 February 2019.

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 APS, together with previous reports to the APS throughout the year, discharges the requirements of ISA 260.

Financial position

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Overview

The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the IJB should therefore be prepared in accordance with the 1973 Act and the 2018-19 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 2018-19

Funding contributions from Aberdeen City Council £86.9 million	Funding contributions from NHS Grampian £228.3 million	Net expenditure £317.9 million	Deficit on provision of services £2.7 million

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 2018-19, the IJB overspent against budget. The recognised overspend has been appropriately reflected as part of the IJB's reserves movements during the year.

Financial position (continued)

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2018-19 Financial position

A deficit of £2.7 million is reported in the comprehensive income and expenditure statement ("CIES"), which was funded from brought forward reserves.

Comprehensive income and expenditure statement

The IJB has a responsibility to set a breakeven budget each year. For 2018-19 this was achieved from an agreed use of Integration and Change Funds from carried forward reserves, in addition to budgeted Integration and Change Fund utilisation.

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.

Key CIES underspends and overspends

- Learning disabilities: overspend £2.9 million. This is attributable to the higher than anticipated needs led home care, which had a total spend over the year of £3.9 million. This was partially offset by an underspend in needs led residential care (£0.6 million) and direct payments (£0.3 million).
- Community health services: underspend £1.2 million. Primarily due challenges in recruitment, in particular with respect to dental services and management.
- Transformation funding: overspend £1.4 million. This arose on transformation projects during the year. It is an element of the IJB's strategy to fund transformation from Integration and Change Fund reserves.

Expenditure	Full year revised budget (£000)	2018-19 Actual (£000)	(Under) / over spend (£000)
Community health services	32,772	31,595	(1,177)
Aberdeen City share of hosted health services	21,916	22,330	414
Learning disabilities	31,738	34,621	2,883
Mental health and addictions	19,838	19,993	155
Older people and physical and sensory disabilities	74,720	74,255	(464)
Directorate	423	171	(252)
Criminal Justice	93	98	5
Housing	1,861	1,861	-
Primary care prescribing	40,731	40,317	(414)
Primary care	38,877	38,885	8
Out of area treatments	1,517	1,690	173
Set-Aside	46,416	46,416	-
Transformation funding	4,255	5,653	1,397
Total mainstream	**315,157**	**317,885**	**2,728**

Source: Finance update as at 31 March 2019

Financial position (continued)

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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 2019 consist of £8.1 million owed by NHS Grampian ("NHSG") and £2.6 million owed to Aberdeen City Council ("ACC"). These amounts relate to Integration and Change Fund expenditure which has been committed but not yet spent.

Balance sheet	2018-19 (£000)	2017-18 (£000)
Short term debtors	8,147	8,307
Short term creditors	(2,569)	-
Net assets	**5,578**	**8,307**
Useable reserves	(5.578)	(8,307)
Total reserves	**(5,578)**	**(8,307)**

Source: Audited annual accounts for the year ended 31 March 2019

The IJB utilised £2.7 million of reserves brought forward from 2017-18, being the deficit for the year. Of the closing reserves position of £5.6 million, £2.5 million has been earmarked in a risk fund. 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.

Audit conclusions

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Audit opinion
Following approval of the annual accounts by the APS, we expect to issue an unqualified opinion on the truth and fairness of the state of the IJB's affairs as at 31 March 2019, and of the deficit for the year then ended. Audit Scotland issued revised audit opinion wording shortly before the audit, with contents which are being reviewed by KPMG's risk team. No opinion is included within the draft annual accounts as a result, although this relates to wording only, not the overall anticipated unqualified opinion. 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 2018-19 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.
Statutory reports
We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.
Other communications
We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
There were no misstatements identified during the audit. There were minor presentational and disclosure adjustments made by management as a result of our audit.
Written representations
Our representation letter will not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in 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 £3.1 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 £2.325 million. We report all misstatements greater than £155,000.

Forming our opinions and conclusions

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

- performed substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Internal Auditor of ACC, who provides internal audit support to the IJB, and reviewed internal audit reports as issued to the APS 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 APS meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

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

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

During the audit minor presentational changes were agreed with management.

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):

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

Wider scope areas (page 15 of this report):

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

Financial statements and accounting
Significant risks

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Management override of controls fraud risk 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.	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. 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. We agreed the total income, expenditure and debtor balances to confirmations from the partner organisations.	There were no specific circumstances identified which would indicate additional risk of management override of controls. No overrides in controls were identified.
Income recognition fraud risk (rebutted) Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.	As set out in our audit strategy document, the Board receives funding from ACC and NHSG. 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. We have obtained confirmations of income from each of the partner organisations.	No exceptions were noted in agreeing income to partner organisation confirmations. We are satisfied that income is recognised appropriately, in the correct financial year and in line with the CIPFA Code.

Financial statements and accounting
Other focus areas

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OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Financial sustainability 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	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: — Integration Scheme (as updated in March 2018). — Reserves strategy. — Medium term financial strategy. — Transformation programme. We enquired of the external auditors of ACC (KPMG) and NHSG (Audit Scotland) as to the financial sustainability of those organisations.	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 £5.6 million, a risk fund of £2.5 million is held as at 31 March 2019 to provide some cover for unexpected events or emergencies. Having enquired of the external auditors of the partner organisations which share the funding obligations of the IJB, there are no expected financial sustainability qualifications for those organisations. 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.

Financial statements and accounting
Other focus areas (continued)

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OTHER FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
Completeness and accuracy of expenditure 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.	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. 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.	The expenditure disclosed in the accounts is complete and accurate.

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	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. 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. We also review the contents of the management commentary against the guidance contained in the CIPFA template IJB accounts.	The information contained within the management commentary is consistent with the annual accounts. 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.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	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. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual Governance Statement	The statement for 2018-19 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. 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.	We consider the governance framework and revised annual governance statement to be appropriate for the IJB and that it is in accordance with guidance and reflects our understanding of the IJB.

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 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 2018-19 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 2019-20 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.

Wider scope and Best Value

Audit dimensions introduction and conclusions

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

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

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

Financial sustainability

Whilst there are significant budget savings included within the five year plan, the IJB has a strong transformation governance structure in place to monitor delivery of savings. The IJB is planning to deliver transformational change over the longer term in order to address some of the financial challenges.

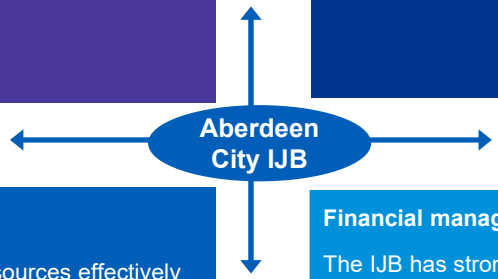
Given that Aberdeen City Council and NHS Grampian fund the IJB in accordance with the Integration Scheme, together with the IJB's control over transformation, we consider that the IJB is financially sustainable.

Governance and transparency

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

We consider that scrutiny is robust, specifically in respect of the APS where members demonstrate proportionate challenge.

The IJB is committed to transparency, with committee papers being publically available.



Value for money

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

Following our prior year recommendation, the Board approved its workforce plan in March 2019 which is aimed at supporting the staff in delivering the IJB's objectives.

Financial management

The IJB has strong controls over the monitoring of expenditure against budget, with quarterly reports being presented at board meetings and evident scrutiny of costs.

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

No audit adjustments were identified in the external audit and we consider that the control environment is robust. Management performed well to further accelerate the annual accounts preparation and audit timetable.

Wider scope and Best Value
Financial sustainability

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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 2019-20 budget to develop a five year medium term financial strategy. Projections for 2019-20 are based on historic trends and planning assumptions.

The total approved funding for IJB in 2019-20 is £313.7 million, which is a 2.5% increase from the £305.9 million prior year budget. Around 70% of this funding comes from NHSG and 30% from ACC. The increase in funding is a combination of the Council passing on its share of an increased allocation (for Scottish living wage, Free Personal Care to under 65s, School Counselling and the Carers Act) and of additional NHSG grant income to cover pay awards, offset by the reduction in the Scottish Government grant settlement to the Council.

Both partners are facing financial challenges with demand exceeding resources available and transformation programmes being underway. Aberdeen City Council identified a £125 million saving target over five years as it commenced its transition to the new Target Operating Model in 2017-18. NHS Grampian has an estimated savings target of £20 million per annum over the next five years. 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.

Local pressures have also impacted the five year financial plan, such as a projected 10% increase in the number of over 65s in the city between 2017 and 2022 and pressures from transitioning children with learning disabilities into the adult care.

	2019-20	2020-21	2021-22	2022-23	2023-24
	£000	**£000**	**£000**	**£000**	**£000**
Budget pressures	7,698	8,113	6,674	6,873	7,080
New requirements	(1,500)	(1,200)	(1,105)	(1,007)	(919)
Total net pressures	**6,198**	**6,913**	**5,569**	**5,866**	**6,161**
Reduction in Council funding	1,870	2,000	2,000	2,000	2,000
Uplift in NHS funding	(3,437)	(3,437)	(3,437)	(3,437)	(3,437)
Total funding adjustments	**(1,567)**	**(1,437)**	**(1,437)**	**(1,437)**	**(1,437)**
Savings target	**4,631**	**5,476**	**4,132**	**4,429**	**4,724**

Source: Medium term financial framework (12 March 2019)

The budget for 2019-20 is balanced, with the assumption that the gap will be closed by the following: savings from managing demand and inflation of £1.7 million; service redesign of £2.4 million; and income generation of £0.6 million. Integration and Change Funding was used in previous years to close the budget gap as a temporary measure, but it is not planned to be utilised for that purpose in 2019-20.

From 2019-20 onwards the IJB has identified budget pressures of between £4.1 million and £5.5 million per annum, with a surplus funding position on new requirements (such as Scottish living wage cost increases and the national care home contract cost increases) between £1.5 million and £0.9 million. The medium term financial strategy sets out the required efficiency, transformation programme, medicine management and service redesign savings required.

We note that savings targets are lower than those included within the medium term financial budget prepared in 2017-18, primarily reflecting the surplus in funding for new requirements.

Wider scope and Best Value
Financial sustainability (continued)

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Risk sharing

The Integration Scheme sets out the process to be followed should the IJB overspend against the agreed budget. The Chief 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.

Reserves strategy

The IJB approved a reserves policy in October 2016 which sets out the statutory and regulatory framework for reserves, the operation of these reserves and the role of the Chief Finance Officer in determining the adequacy of reserves held by the IJB. The projected reserves position for 2019-20 was approved with the medium term financial strategy on 12 March 2019. The position, set out in the table opposite, includes a £2.5 million risk fund which was approved by the Board in 2016. This is a prudent approach by the IJB and is intended to create a contingency for unexpected events.

2019-20 reserves movements	£ million
Budgeted opening reserves	5.1
Primary care reserve utilisation	(0.4)
Integration and change fund utilisation	(0.9)
Closing reserves (at 31 March 2020)	**3.8**

Source: Medium term financial framework (12 March 2019)

The annual accounts as at 31 March 2019 were prepared on a going concern basis. The IJB is in its third year of operation and has ongoing transformation programme. At the end of 2018-19 it had reserves of £5.6 million which was greater than the budgeted £5.1 million. The reserves are estimated to fund £1.3 million (or 25%) of the total spend of £6.7 million on Integration and Change.

Transformation programme

The Board receives regular updates on progress towards transformation projects. Key decisions are presented to the Board for approval. The APS also receives detailed updates into transformation progress including 'deep dives' into specific areas at request. Following its revised strategy plan, the IJB refreshed its priorities in 2019 and has the following workstreams:

- Organisational Development & Cultural Change
- Digital
- Modernising Primary & Community Care
- Supporting Self-Management of Long Term Conditions and Building Community Capacity
- Efficient Resources.

Wider scope and Best Value
Financial sustainability (continued)

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The Board expects that some of the transformation projects will need to move from 'test of change' status to 'scale up' status, integrating with existing business as usual to maximise available resources. To help with the transition, and support staff, the IJB recently approved its workforce plan and intents to use Lean Six Sigma methodology to improve processes.

As noted in our 2017-18 Annual Audit Report, 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.
- Other efficiency savings including review of pricing policies and review of services.

Audit Scotland focus area: Changing public landscape for financial management and EU withdrawal

Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits.

Scottish Government published an initial five-year Medium Term Financial Strategy in May 2018. Although delayed, the EU withdrawal is expected to take place in 2019 with possible wide impact on workforce planning and wider economic environment.

For the risks presented by these areas, the IJB's primary response is to consider the actions taken by ACC and NHSG, being the funders and commissioned bodies. This is an appropriate response.

Through the established risk management framework of the IJB, risks which directly impact the body are considered and managed. We note that in March 2019 the IJB approved its workforce plan with the impact of EU withdrawal in mind.

Conclusion

Whilst there are significant budget savings included within the five year plan, the IJB has a strong transformation governance structure to monitor delivery of savings. High level themes have been developed to support budget savings.

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.

In forming this conclusion we note the views of the appointed auditors for the partner bodies, neither of which raised exceptions in respect of financial sustainability.

The IJB is appropriately considering wider risks in relation to EU withdrawal and budgeting.

Wider scope and Best Value
Financial management

DRAFT

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 APS. 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 APS on a timely basis and that overspends are appropriately discussed and challenged.

Audit Scotland focus area: Key supplier dependency

All bodies are potentially exposed to the failure of a key supplier, in an operational and infrastructure context. For the IJB, ACC and NHGC are the key suppliers of services, but are unlikely to cease providing these services given the bodies' nature, purpose and role as partners to the IJB. We have commented on the financial sustainability aspects of both partners on page 16.

The IJB is aware of and is managing the risk of changing suppliers, including GPs and care providers. Key activities include market management and facilitation, consideration of inspection reports from the Care Inspectorate and contract monitoring process including GP contract review visits.

Bon Accord Care is a key supplier of care services and is a subsidiary of ACC. As part of the ACC governance arrangements the ALEO Assurance Hub receives monitoring reports on a routine basis, including in respect of financial sustainability and regulatory compliance. We consider that the IJB's arrangements in respect of supplier dependency risks are appropriate.

Audit Scotland focus area: Care income and financial assessments

Some other local government audits indicated there may be wider issues with the systems and processes for collecting care income and undertaking financial assessments on individuals receiving care.

ACC is responsible for collection of care income and processing financial assessments. Backlogs currently exist and the bodies commenced a lean Six Sigma continuous improvement project in February 2019 which will seek to simplify and shorten the financial assessments process.

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.

Wider scope and Best Value
Financial management (continued)

DRAFT

Annual accounts

The 2018-19 annual accounts preparation was brought forward by three weeks compared to 2017-18, to adhere to the ACC accelerated timetable. Officers issued unaudited annual accounts to the APS on 30 April 2019. The audit was conducted from 13 May 2019 and no audit adjustments were identified. Management performed well to accelerate the timetable whilst maintaining quality for the second 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.

Wider scope and Best Value
Governance and transparency

DRAFT

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 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 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 APS 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 APS 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 APS. 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 with 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.

Following the departure of Judith Proctor, Sally Shaw was appointed as Interim Chief Officer on 10 April 2018. On 3 September 2018 Sandra Ross was appointed as the permanent Chief Officer, having previously been in the role of Managing Director of Bon Accord Care.

Risk management

The risk management processes are based on IJB's work with the Good Governance Institute from two years ago 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 APS.

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.

Wider scope and Best Value
Governance and transparency (continued)

DRAFT

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 APS. Internal audit completed six audits during 2018-19 with one still in draft, and one in progress. There were no recommendations graded as 'major', 'critical' or 'high'.

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.

At the date of issuing his opinion (5 April 2019) the chief internal auditor noted that one significant recommendation was overdue. This recommendation was in relation to the development of the asset management strategy. Management noted that implementation of the recommendation was delayed, as the focus over the last year has been on moving forward the primary care projects per the deadlines. Management anticipates that the strategy will be completed by December 2019.

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.

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 APS 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 APS 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 consider that scrutiny is robust and transparent.

Wider scope and Best Value (continued)
Value for money

DRAFT

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.

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.

During 2018-19 the IJB refined its approach and re-mapped its 60 performance strategic indicators to the revised five strategic aims. The IJB considers its performance reports quarterly by both the APS 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.

Learning from projects

The Board ran a number of projects in the year including Integrated Neighbourhood Care Aberdeen and West Visiting Service. These projects were aimed at implementing and testing new ways of working in care delivery and establishing integrated local teams. In both cases these pilot projects were used by the IJB to self-evaluate and to identify benefits, efficiencies and further ways to improve the services and their delivery. This work helps to identify efficiencies and supports culture of continuous improvement.

Conclusion

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

KPMG

Appendices

Appendix one

Appointed auditor's responsibilities

DRAFT

AREA	APPOINTED AUDITOR'S RESPONSIBILTIES	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	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.	Page 8 summarises the opinions we have provided. Page 13 reports on the other information contained in the financial statements, covering the management commentary, remuneration report and annual governance statement.
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	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - 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.

Appendix two

Auditor independence

Assessment of our objectivity and independence as auditor of Aberdeen Integration Joint Board

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

DRAFT

Summary of fees

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

There were no non-audit services provided during the year to 31 March 2019.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

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

Yours faithfully,

KPMG LLP

Appendix three

Required communications with the APS

DRAFT

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 2019.
Adjusted audit differences	There were no adjusted audit differences.
Unadjusted audit differences	There were no unadjusted audit differences.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Performance Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We did not test any internal controls during our audit, and therefore have no deficiencies to report. Management retain the responsibility for maintaining an effective system of internal control.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

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

Appendix four

Action Plan - Prior year recommendations

DRAFT

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	-	-

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

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Workforce planning (Value for Money)	**Grade three**		
The IJB's workforce plan is being developed. Once complete this will reflect the NHS approach to workforce planning. The executive team has approved work to date, however the workforce plan has still to be approved by the Board. There is a risk, given the demographics of the workforce, that without a workforce plan in place there could be a detrimental impact to the achievement of the IJB's strategy.	The IJB should progress workforce planning to identify and address potential skills gaps.	**Management response:** Agreed **Responsible officer:** Chief Finance Officer **Implementation date:** 31 March 2019	**Implemented** A workforce plan has been developed and approved.

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