

# Moray Integration Joint Board

**DRAFT 2018/19 Annual Audit Report**



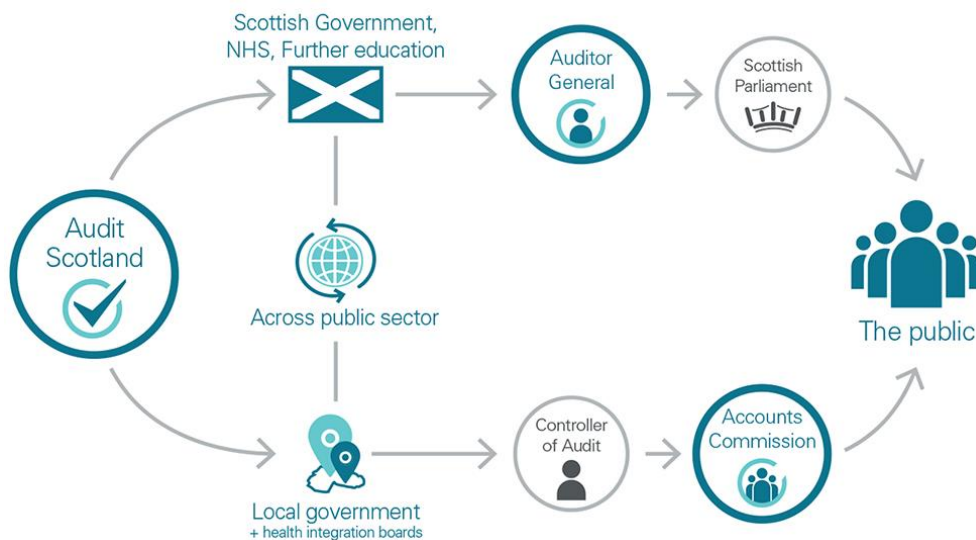
 **AUDIT SCOTLAND**

Prepared for Moray Integration Joint Board and the Controller of Audit  
September 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- the Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- the Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Contents

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Key messages	4
Introduction	5
Part 1 Audit of 2018/19 annual accounts	7
Part 2 Financial management and sustainability	9
Part 3 Governance, transparency and value for money	13
Appendix 1 Action plan 2018/19	16
Appendix 2 Significant audit risks identified during planning	18
Appendix 3 Summary of national performance reports 2018/19	20

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# Key messages

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## 2018/19 annual report and accounts

- 1 Our audit opinions on the annual accounts are all unqualified.

## Financial management and sustainability

- 2 The 2018/19 budget was unbalanced, with a £3.3 million (2.8 per cent) gap. 2018/19 expenditure was £0.6 million greater than budget after allowing for deficit-funding of £1.2 million by partner bodies at the year end. The overspend was met by a planned use of reserves. The 2018/19 outturn also includes £1.4 million of strategic funding that has been used to support core services rather than fund strategic development.
- 3 A financial recovery plan has been agreed and appears to be on track to deliver expected savings. A budget has been set for 2019/20 but this includes uncertain savings targets of £3.1 million and relies on the continued use of strategic funds to support core services.
- 4 The IJB does not have a medium- or long-term financial plan.

## Governance, transparency and value for money

- 5 A new Strategic Plan is being developed and the IJB has undertaken a self-evaluation review.
- 6 Performance arrangements are effective, and the IJB met or exceeded the majority of the national standards.

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# Introduction

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1. This report is a summary of our findings arising from the 2018/19 audit of Moray Integration Joint Board (the IJB).

2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit, Performance and Risk Committee meeting on 28 March 2019. This report comprises the findings from our main elements of work in 2018/19 including:

- an audit of the IJB's 2018/19 annual accounts including issuing an independent auditor's report setting out my opinion
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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## Adding value through the audit

3. We add value to the IJB, through audit, by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides

- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

4. In so doing, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. The IJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The IJB is responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities, as independent auditor appointed by the Accounts Commission, are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice (2016), supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements,
- the financial position and arrangements for securing financial sustainability.

8. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can confirm that we have not undertaken any non-audit related services. The 2018/19 audit fee of £25,000, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to both the Board and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

13. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

Our audit opinions on the annual accounts are all unqualified.

The management commentary was revised to improve the explanation of the financial outturn and consistency with the financial statements.

The annual accounts are the principal means of accounting for the stewardship of the board's resources and its performance in the use of those resources.

### Audit opinions on the annual accounts were unqualified

**14.** The annual accounts for the year ended 31 March 2019 were approved by the Audit, Performance and Risk Committee on 19 September 2019 (TBC). We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- the management commentary, annual governance statement, and audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with proper accounting practices.

**15.** Additionally, we have nothing to report in respect of misstatements in other information presented with the financial statements, the adequacy of accounting records or the information and explanations we received.

### The annual accounts were submitted on time and the audit was well-supported

**16.** We received the unaudited annual accounts on 27 June 2019 in line with our agreed audit timetable. The working papers provided with the unaudited annual accounts were of a good standard and the Chief Financial Officer provided good support to the audit team which helped ensure the audit process ran smoothly.

### We identified and addressed risks of material misstatement

**17.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

### We reviewed our planned materiality levels on receipt of the unaudited annual accounts

**18.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves

considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

**19.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically, regarding the annual accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

**20.** On receipt of the unaudited annual accounts we reviewed our materiality calculations and concluded that they remained appropriate.

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## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£1.25 million
Performance materiality	£0.6 million
Reporting threshold	£50,000

Source: Audit Scotland 2018/19 Annual Audit Plan

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### There are no significant findings from the audit

**21.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. There are no significant findings from the audit in accordance with ISA260.

**22.** There were no material adjustments to the unaudited annual accounts arising from our audit.

### Other findings

#### Amendments were made to the management commentary

**23.** The management commentary that accompanies the financial statements should clearly explain how a body has performed against its budget and how this is reconciled to the financial statements. It was not clear how the outturn position included in the management commentary in the accounts presented for audit reconciled to the deficit set out in the Comprehensive Income and Expenditure Statement. The Chief Financial Officer has added in additional commentary to explain how these reconcile in the audited financial statements.

### Some progress has been made with prior year audit recommendations

**24.** Three of the six recommendations included in our annual audit report last year have been completed. The remaining three are ongoing. For the actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).



# Part 2

## Financial management and sustainability



### Main judgements

The 2018/19 budget was unbalanced, with a £3.3 million (2.8 per cent) gap.

Expenditure was £0.6 million greater than income, after allowing for £1.2 million deficit-funding by additional contributions from partner bodies at the year end. This overspend was met through a planned use of reserves.

The 2018/19 outturn also includes £1.4 million of strategic funding that has been used to support core services rather than fund strategic development.

A financial recovery plan has been agreed during 2018/19 and appears to be on track to deliver expected savings.

A budget has been set for 2019/20 but this includes savings targets of £3.1 million, some of which are uncertain.

The IJB does not have a medium- or long-term financial plan.

Reserves are relatively low and cannot be depended on to support future deficits.

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

### Quarterly finance reports are presented to Board members

**25.** Regular finance reports are prepared by the Chief Financial Officer and submitted to the MIJB Board for review quarterly. These reports provide extensive details on the financial position, including the year-to-date position with variance analysis and a forecast outturn position.

### The 2018/19 budget was unbalanced, with a £3.3 million (2.8 per cent) gap

**26.** The MIJB indicative budget was presented to the Board in March 2018 and forecast a shortfall of £4.6 million. A revised budget was presented to the Board on 28 June 2018 which reduced the forecast shortfall to £3.3 million which represented 2.8 per cent of the overall budget. The revised budget included efficiency savings of £1.5 million and a further £0.8 million from remaining reserves.

## A financial recovery plan covering the period to 2021/22 was agreed during 2018/19 but there is uncertainty over some of the identified savings

27. In November 2018, the IJB agreed a financial recovery plan with NHS Grampian and Moray Council. This aimed to reduce the 2018/19 funding shortfall and address the underlying overspend on core services in future years and the dependency on slippage on projects, which means that strategic funds have been used to support core services. The financial recovery plan identified potential savings from several service areas but there is some uncertainty over these. For example, savings are anticipated from GP prescribing, but this described as “a volatile area”. The plan also aims to use slippage on projects funded by strategic funds to support core services throughout the period.

## In 2018/19 the IJB incurred an overspend of £0.6 million after additional funding of £1.2 million from partner bodies and using strategic funds to support core services (£1.4 million)

28. [Exhibit 3](#) shows how the financial position was reported throughout the year. Financial monitoring reports include transfers from reserves as additional in-year funding. This is inconsistent with the presentation in the financial statements but can be reconciled and should be clearer in financial monitoring reports, as this may disguise the recurrent deficit position. The year-end overspend set out in [Exhibit 3](#) was funded by £1.2 million additional contributions from partner bodies as set out in the Integration Scheme. This provides good evidence of partnership working. The year-end outturn in the financial statements is a net overspend of £0.6 million which was funded from reserves as planned.

### Exhibit 3

#### Financial Monitoring reports showing projected outturn for (over)/underspends

	Core budget forecast (over)/underspend £m	Strategic Funds forecast (over)/underspend £m	Total year end forecast (over)/underspend £m
Quarter 2	(3.0)	1.0	(2.0)
Quarter 3	(3.1)	1.6	(1.5)
Year-end outturn report	(2.6)	1.4	(1.2)
<b>Accounts as at March 2019</b>	-	-	(0.6)

Source: Financial Monitoring Reports taken to the Board during the year & 2018/19 Moray IJB accounts



#### Recommendation 1

**The financial monitoring reports should be reviewed to ensure that the forecast and actual outturns clearly reflect the expected position in the financial statements.**

## **The amount set aside for the acute sector and mental health services increased by £1.2 million during 2018/19**

**29.** The accounts include £11.8 million of 'set aside' expenditure. This represents hospital services that are managed on a day-to-day basis by NHS Grampian Acute Sector or Mental Health Service, but where MIJB has a responsibility for the strategic planning of these services. This figure has increased in 2018/19 by £1.2 million this year due to increases in the number of bed days and direct costs attributed to the IJB by NHS Grampian.

## **The IJB's 2019/20 budget depends on achieving savings set out in the financial recovery plan, which correspond to themes rather than specific actions**

**30.** The 2019/20 budget of £129 million was approved by the MIJB Board in March 2019. The budget incorporates £1.6 million (1.2 per cent) of savings across the themes identified in the recovery plan. The budget also includes the use of £1.5 million of strategic funds to fund core services. This was presented as a balanced budget. However, there is an element of uncertainty regarding some underpinning savings (see [paragraph 27](#)); the budget sets a target for savings but lacks the detailed actions to achieve these.

## **Early indications from 2019/20 are that the recovery plan savings are on track**

**31.** The quarter 1 finance report for 2019/20 (presented to the Board in August 2019) identified a total overspend to date of £0.8 million. Service areas reporting the most significant overspend are Community Hospitals (£0.2 million), Older People and Physical Sensory Disability (£0.3 million) and Primary Care Prescribing (£0.3 million).

**32.** The quarter 1 report does not provide a forecast year-end position, but it does provide an update on the recovery plan. For the period to the end of June 2019, £0.4 million of core budget savings were expected to be realised. The report states that this has been exceeded by £0.2 million but also identifies areas where savings targets have not been achieved, most notably in Community Hospitals. As indicated in [paragraph 27](#), the financial recovery plan incorporates anticipated slippage on projects funded by strategic funds. This accounts for around half (£1.5 million) of the total savings target for 2019/20 of £3.1 million. No information on strategic funds is presented in the quarter 1 report.

## **The partner bodies have sound systems of internal control in place**

**33.** MIJB does not have any financial systems of its own. Instead it relies on the financial systems of the partner bodies to record all transactions. The key financial systems which the IJB relies on include general ledger, trade payables, trade receivables and payroll.

**34.** As part of our audit approach we sought assurances from the external auditor of NHS Grampian and Moray Council (in accordance with ISA 402). Some control weaknesses were identified within the Moray Council and the auditors undertook additional audit procedures to obtain the assurances required for their audit opinions. This did not identify any issues.

## **Internal audit conforms with the Public Sector Internal Audit Standards**

**35.** The IJB's internal audit function is provided by Moray Council's internal audit team. Internal audit was externally assessed during 2018/19 and was found to 'generally conform' with the Public Sector Internal Audit Standards. The

assessment identified twelve recommendations for improvement, all of which have been accepted by management. We will monitor progress in implementing the agreed actions as part of our 2019/20 audit.

**36.** We did not place any formal reliance on internal audit reviews in 2018/19, and there were no issues identified by internal audit that impacted on our audit of the IJB's annual accounts.

### **Standards of conduct and arrangements for the prevention and detection of fraud and error are sound**

**37.** We confirmed that the IJB has a members' code of conduct which was found to be appropriate. The IJB uses the financial systems of the Moray Council and NHS Grampian and so arrangements for the prevention and detection of fraud, bribery and corruption in respect of the financial systems is the responsibility of these organisations. We have received assurances from the auditors of the Moray Council and NHS Grampian (in accordance with ISA 402) that there are no issues of concern.

### **The IJB does not have a medium- or long-term financial plan**

**38.** Medium- and long-term financial planning is an important part of strong financial management. We reported previously that the IJB does not have a medium- or long-term financial strategy. In August 2018 the Chief Financial Officer presented an initial financial outlook for the next 5 years to the Board. In addition, the financial recovery plan, implemented during 2018/19, covers the period to 2021/22.

**39.** The IJB is planning to develop a 3 to 5-year financial strategy in conjunction with the Strategic Plan 2019-2029. This will be presented to the Board for approval in October 2019. We will continue to monitor progress in this area as part of our 2019/20 audit.

### **Reserves are relatively low and cannot be depended on to support future deficits.**

**40.** Last year we reported that the IJB drew down £1.9 million from reserves during 2017/18 and this year it drew down a further £0.6 million which resulted in a closing reserve balance of £0.3 million. This represents 0.2 per cent of the total cost of services in 2018/19 which compares to a target of 2 per cent in the MIJB reserves policy (agreed in January 2019). The ability of the IJB to rely on reserves to meet unforeseen deficits in future years is diminished, placing greater importance on the IJB recovery plan.

# Part 3

## Governance, transparency and value for money



### Main judgements

The IJB operates in an open and transparent manner and governance arrangements are appropriate to ensure adequate scrutiny.



A new Strategic Plan is being developed and the IJB has undertaken a self-evaluation review.

Performance arrangements are effective and the IJB has met or exceeded the majority of the national standards.

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

### Governance arrangements within MIJB are appropriate to ensure adequate scrutiny

**41.** The IJB Board meets around eight times a year and is supported by the Audit, Performance & Risk Committee and the Clinical Care & Governance Committee (both meet at least four times a year). The Board comprises six voting members - three from the Moray Council and three representatives of NHS Grampian. They are supported by non-voting members (advisors) from the council, NHS, third sector and the community.

**42.** The Board underwent significant changes in membership during 2018/19. Based on our attendance at Board and Audit, Performance and Risk Committee meetings and review of agendas and papers, we concluded that the IJB has appropriate arrangements in place that support good governance and scrutiny.

### The IJB operates in an open and transparent manner

**43.** All Board and committee meetings are open to the public and papers continue to be made available on the MIJB website timeously.

### MIJB is currently preparing a new Strategic Plan

**44.** A new Strategic Plan for 2019-2029 is currently being developed and is expected to be approved by the Board in October 2019.

### The IJB has undertaken a self-evaluation based on the recommendations in the Ministerial Strategic Group for Health and Community Care report

**45.** In November 2018, Audit Scotland published its review of Health and Social Care Integration in Scotland. That review was considered by the Ministerial Strategic Group (MSG) for Health and Community Care which developed a number of specific proposals in light of the Audit Scotland recommendations. The MSG

also requested that each health board, local authority and integration joint board should undertake a self-evaluation of their progress in relation to those proposals.

**46.** Moray IJB's self-evaluation was submitted to the Board in June 2019. Of the 22 local proposals, 11 were assessed as 'established' with the remainder assessed as 'partly established'. Areas assessed as partly established include:

- IJBs must be better empowered to use the totality of resources at their disposal to better meet the needs of their local populations
- clear directions must be provided by the IJB to the Health Board and Local Authority.

### **Quarterly performance reports are provided to Committee**

**47.** The Audit, Performance and Risk Committee receives quarterly performance reports. These reports use a RAG (red, amber, green) approach to monitor progress against 17 local indicators that are linked to the strategic priorities of the MIJB.

**48.** Further detail is provided for any indicators marked as red, and updates on any risks which have moved from red status. The quarter 4 report for 2018/19 identified 4 (24 per cent) indicators at red status. These were:

- percentage of new dementia diagnoses who receive 1-year post-diagnostic support
- number of Alcohol Brief Interventions being delivered (includes ABIs in priority and wider settings where data can be aligned to HSCP)
- council sickness absence (percentage of Calendar Days Lost)
- percentage of patients commencing Psychological Therapy Treatment within 18 weeks of referral

### **The annual performance report still isn't meeting requirements**

**49.** The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. Last year we identified that the 2017/18 performance report was not published on time and it did not contain financial performance analysed by locality. Our review this year confirms that these points have still to be addressed.

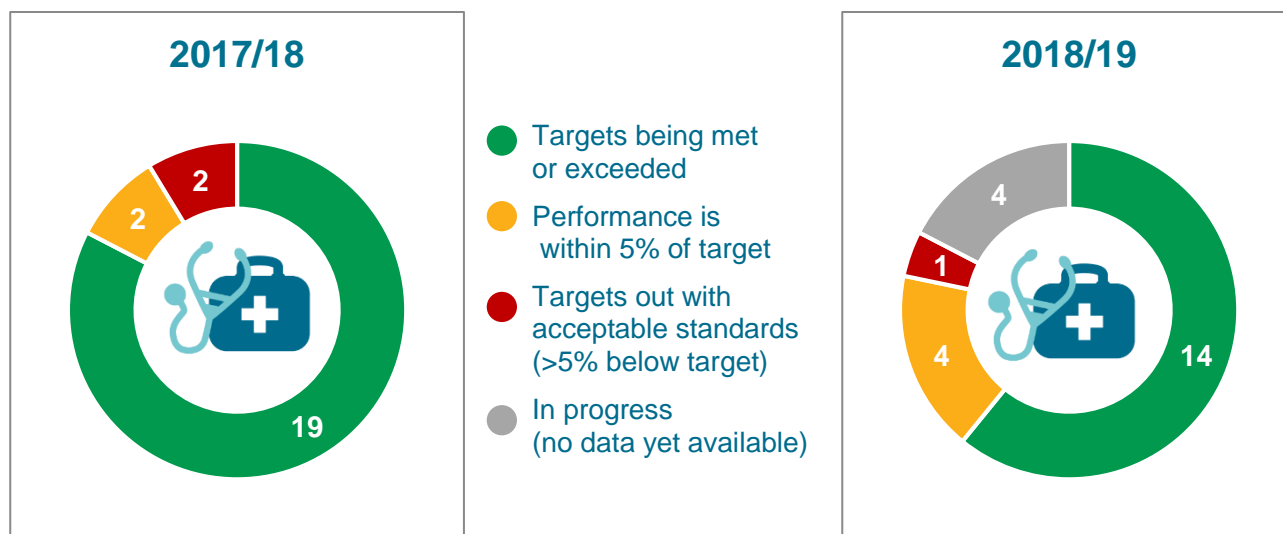
**50.** We have been advised that this remains a priority for development and that the IJB has recently approved a revised management structure that will support the move towards locality planning.

### **The IJB met or exceeded the majority of the national standards**

**51.** The IJB's performance against the 23 National Core Indicators is presented in the 2018/19 performance report. This is based on the most up to date information available at March 2019. Some of this information dates back to 2018 as the underlying survey for some indicators is carried out biennially. Although the results from four indicators are currently outstanding, MIJB continues to meet most targets. The only red indicator relates to the number of days spent in hospital by those aged 75 years and over when ready to be discharged. A summary of the indicators is set out in [Exhibit 4](#).

## Exhibit 4

### Overall performance against National core integration standards



Source: Moray HSCP Annual Performance Reports

### Reasonable steps have been taken to prepare for EU withdrawal

**52.** As the IJB does not directly incur expenditure or employ its own staff, it is heavily dependent on the preparations of NHS Grampian and the Moray Council to mitigate the risks associated with EU withdrawal. We have taken assurance from the conclusions reported by the external auditors of both bodies confirming that they are making reasonable preparations for EU withdrawal. On this basis, we have no specific risks to highlight.

### Other national performance audit reports

**53.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19 we published some reports which may be of interest to the IJB as outlined in [Appendix 3](#).



# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial monitoring reports</b></p> <p>The financial monitoring reports treat transfers from reserves as additional in-year funding. This is inconsistent with the presentation in the financial statements. The year-end financial monitoring reports an overspend of £1.2 million compared to a deficit of £0.6 million in the financial statements.</p> <p><b>Risk:</b> the financial position of the IJB is unclear.</p>	<p>The financial monitoring reports should be reviewed to ensure that the outturn clearly reflects the expected position in the financial statements.</p>	<p>Financial reports to the IJB will be reviewed to ensure clarity in respect of the expected position in the financial statements.</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Agreed date:</b> 30 November 2019</p>

### Follow up of prior year recommendations

17/18 (1)	<b>Notice of public right to inspect and object to accounts</b>	In 2018/19 the IJB should publish the notice of public right to inspect and object to the accounts on its website within the required timescale.	<p><b>Completed</b></p> <p>Notifications were placed on the MIJB and Moray Council websites as well as local newspapers.</p>
17/18 (2)	<b>Budget setting/financial sustainability</b>	The 2018/19 budget shortfall should be addressed to allow the IJB to balance its budget, or a recovery plan must be agreed with NHS Grampian and Moray Council.	<p><b>Completed</b></p> <p>MIJB put in place a financial recovery plan in November 2018 which contributed towards a reduced overspend, but additional contribution was still required from partner bodies. A balanced budget has been agreed for 2019/20 but achievement of this will require ongoing management of the recovery plan and financial pressures.</p>
17/18 (3)	<b>Medium- and long-term financial planning</b>	A long-term financial strategy (5 years +) supported by clear and detailed financial plans (3 years +) should be prepared. This is increasingly important as demand pressures increase, financial settlements	<p><b>Outstanding</b></p> <p>The MIJB intends to develop a medium term (3-5 year) financial strategy to support the new Strategic Plan which is due to be approved in</p>





No.	Issue/risk	Recommendation	Agreed management action/timing
		continue to reduce and fundamental service redesign over a longer time frame becomes necessary. Plans should set out scenario plans (best, worst, most likely).	<p>October 2019. We will continue to monitor progress with medium to long term financial planning as part of our 2019/20 audit.</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Agreed date:</b> 31 October 2019</p>
17/18 (4)	<b>External assessment of Internal Audit</b>	An external assessment of the internal audit function should be undertaken, and the results reported to the IJB.	<p><b>Completed</b></p> <p>The external assessment was completed in February 2019 and concluded that the council's internal audit service 'generally conforms' with the PSIAS. The assessment identified twelve recommendations for improvement all of which have been accepted by management.</p>
17/18 (5)	<b>Register of Interests</b>	All voting, non-voting and co-opted members should update their register of interests at least annually and these should be made available on IJB's website.	<p><b>Outstanding</b></p> <p>The registers of interest available on the IJB's website are still not all up to date.</p> <p><b>Responsible officer:</b> Chief Officer</p> <p><b>Agreed date:</b> 30 November 2019</p>
17/18 (6)	<b>Annual Performance Report</b>	<p>The annual performance report should be published in accordance with the timescale as set out in the 2014 regulations.</p> <p>The contents of the annual performance report should be improved to include information about financial performance analysed by locality.</p>	<p><b>Outstanding</b></p> <p>Our review this year confirms that these points have still to be addressed.</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Agreed date:</b> During 2019/20</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Service auditor assurance was obtained from the auditors of Moray Council and NHS Grampian.</p> <p>All movements of funds between IJB and partner bodies were confirmed to management accounts and representations by partner bodies.</p> <p><b>Conclusion:</b> We did not identify any incidents of management override of controls.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>2 Financial management and sustainability</b></p> <p>The 2018/19 budget agreed by the IJB in March 2018 identified a funding shortfall of £4.6 million. This gap was subsequently reduced to £3.3 million, at the end of June, following the identification of additional savings of £0.5 million and the use of all of the IJB's reserves (£0.8 million). This represented an unbalanced budget which was underpinned by partner deficit funding in line with the integration scheme.</p> <p>In November 2018, the IJB agreed a financial recovery plan with NHS Grampian and Moray Council aimed at reducing the 2018/19 funding shortfall and addressing the underlying overspend on core services in future years.</p>	<p>Progress has been made during 2018/19 through enhanced scrutiny and restrictions in relation to expenditure. This has been positive in reducing the forecast deficit (after use of reserves) for the year.</p> <p>The Recovery Plan has been agreed by partners and the risks inherent in the plan have been highlighted to members of the IJB. To further address this, the Senior Management Team will be conducting service reviews to ensure strategic priorities can be delivered within the financial framework.</p> <p>The medium-term financial strategy will be aligned to the new Strategic Plan and presented to the IJB in June 2019 as part of a suite of reports addressing transformation. It is acknowledged by IJB members that this should be</p>	<p>After receiving deficit funding of £1.2 million from partner bodies and allowing for slippage of £1.4 million on strategic funds, the IJB recorded an overspend of £0.6 million in 2018/19. This was met by a planned transfer from reserves. The closing reserves balance (£0.3 million) represents 0.2 per cent of cost of services, which diminishes the ability of the body to use these funds to meet future overspends.</p> <p>The financial recovery plan highlighted actions to address the forecast overspend and measures taken in 2018/19 resulted in further savings of £0.2 million. The plan covers the period to 31 March 2021.</p> <p>A budget has been set for 2019/20 but successful achievement of this is dependent upon meeting savings targets set out in the recovery plan and managing significant financial pressures. There is uncertainty</p>

Audit risk	Assurance procedure	Results and conclusions
<p>In February 2019, the Chair of the IJB wrote to the chief executives of its partner bodies to advise that a £1.5 million deficit (after the use of reserves) was being forecast for 2018/19 and that this would require to be funded by NHS Grampian (63%) and Moray Council (37%).</p> <p>We have previously reported that the IJB has yet to develop medium to long term financial plans. Although the financial recovery plan covers the period 2019/20 to 2021/22, it only sets out projected savings to recover the underlying deficit on core services and does not include any additional budget pressures.</p> <p>There is a risk that:</p> <ul style="list-style-type: none"> <li>• the recovery plan is not robust, and the required savings are not realised</li> <li>• the IJB is not planning adequately over the medium to long term to manage or respond to significant financial risks.</li> </ul>	<p>considered in the context of longer-term financial planning.</p>	<p>over the achievement of some of these savings.</p> <p><b>Conclusion:</b> Financial management is adequate but the short-term financial sustainability of the IJB is uncertain based on savings targets, planned use of strategic funds to support core services and relatively low levels of reserves.</p>

# Appendix 3

## Summary of national performance reports 2018/19

 <b>2018/19 Reports</b>		
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>
Councils' use of arm's-length organisations		<b>May</b>
Scotland's colleges 2018		<b>Jun</b>
		<b>Jul</b>
		
Forth Replacement Crossing		<b>Aug</b>
		
Children and young people's mental health		<b>Sept</b>
		
NHS in Scotland 2018		<b>Oct</b>
Health and social care integration: update on progress		<b>Nov</b>
		
		<b>Dec</b>
		<b>Jan</b>
		<b>Feb</b>
		<b>Mar</b>
		Local government in Scotland: Challenges and performance 2019

### Reports relevant to Integration Joint Boards

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Children and young people's mental health](#) – September 2018

[NHS in Scotland 2018](#) – October 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

# Moray Integration Joint Board

## DRAFT 2018/19 Annual Audit Report

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