



*cutting through complexity*

# Scottish Borders Health and Social Care Integration Joint Board

Annual audit report to the Members of Scottish Borders Council  
and the Controller of Audit

For the year ended 31 March 2016

Draft: 6 September 2016

**DRAFT**



## 1. EXECUTIVE SUMMARY



## 2. SIGNIFICANT RISKS



## 3. WIDER SCOPE



## 5. APPENDICES

### 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 Scottish Borders Health and Social Care 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 section of this report.

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

### Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie who is the engagement leader for our services to Scottish Borders Health and Social Care Integration Joint Board, telephone 0131 527 6682, email: [hugh.harvie@kpmg.co.uk](mailto:hugh.harvie@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, 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 6720 or email to [alex.sanderson@kpmg.co.uk](mailto:alex.sanderson@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

## Audit conclusions

- We expect to issue an unqualified audit opinion on the financial statements of Scottish Borders Health and Social Care Integration Joint Board ('IJB'), following receipt of management representation letters.

## Financial position

- The notional financial resources expended to support the IJB in 2015-16 have been identified and disclosed within the financial statements. However, the IJB was not charged for these services, the costs being borne in their entirety by either Scottish Borders Council or NHS Borders.

## Financial statements and related reports

- We have concluded satisfactorily in respect of each significant risk and audit focus area identified. We concur with management's accounting treatment and judgements, including going concern. We have no matters to highlight in respect of: unadjusted audit differences; independence; and changes to management representations.
- Financial statements were of good quality when received; with only a few minor presentational changes required.

## Wider scope matters

- We considered the wider scope audit dimensions and concluded positively in respect of financial management, governance and transparency and value for money.
- We also considered financial sustainability and have recommendations in this area.

## Audit Conclusions

- The IJB is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code. Additional guidance on accounting for the integration of the health and social care has been created by LASAAC. Our audit confirmed that the financial statements have been prepared in accordance with the LASAAC guidance and relevant legislation.
- 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.

# Executive summary

## Scope and responsibilities

### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of the Scottish Borders Health and Social Care Integration Joint Board (“the IJB”) under the Local Government (Scotland) Act 1973 (“the Act”). This document summarises our opinion and conclusions on significant issues arising from our audit.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements, but also consideration of areas such as financial management and sustainability, governance and transparency and value for money.

### Auditor and audited bodies’ responsibilities

The Code sets out the responsibilities in respect of:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems.

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

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

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

### Overview

An order to establish the Integration Joint Board was laid in the Scottish Parliament on Friday 8 January 2016 for 28 days. On 6 February 2016 the Scottish Borders Health & Social Care Integration Joint Board was legally established.

Whilst the Scottish Borders Health and Social Care Partnership operated only as a shadow board during 2015-16, with budgets and functions being aligned only and not delegated until 1st April 2016, the IJB was required to prepare financial statements for 2015-16, following the 2015-16 Code. Guidance was issued by The Local Authority (Scotland) Accounts Advisory Committee ("LASAAC") in September 2015 on the expected content of the IJB accounts. The LASAAC guidance states that IJBs should comply with the Local Authority Accounts (Scotland) Regulations 2014, which includes the preparation of a remuneration report. The IJB appointed a Chief Officer and, on an interim basis, a Chief Finance Officer.

### Financial position

CIES	£000
Income	19
Expenditure	(19)
Net expenditure	-
Balance Sheet	£000
Current assets	4
Current liabilities	(4)
Net assets	-

The IJB accounts relate only to the operating costs of the Board from its establishment date of 6 February 2016 to 31 March 2016. During this period, the Board received income of £19,000 and incurred expenditure of £19,000. The Board had no reserves at either its establishment date or at 31 March 2016.

The IJB received contributions from Scottish Borders Council and NHS Borders as income.

The remuneration report is appropriately produced to include the Chief Officer as this position is deemed to be a 'relevant position'. Per LASAAC guidance the Chief Officer costs should be allocated to the IJB from its establishment date.

The balance sheet consists of Scottish Borders Council and NHS Borders debtor and creditor amounts.

### Significant risks and audit focus areas

International Standard on Auditing (UK and Ireland) 315 (ISA): *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore requiring specific audit consideration. Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. As the IJB did not direct services during 2015-16, it did not receive income for operations and therefore we do not consider the fraud risk from revenue recognition to be significant.

We summarise below the risks of material misstatement. We set out the key audit procedures to address those risks and our findings from those procedures on the following pages, in order that the IJB may better understand the process by which we arrived at our audit opinion.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from management override of controls	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.	We have no changes to the risk or our approach to addressing the assumed ISA risk of fraud in management override of controls. We do not have findings to bring to your attention in relation to these matters. No control overrides were identified.
FOCUS AREA	OUR RESPONSE	AUDIT CONCLUSION
First year financial statements preparation	<ul style="list-style-type: none"> <li>As 2015-16 is the first period of the preparation of the IJB's financial statements we reviewed the disclosures in the financial statements against the 2015-16 Code, the Local Authority Accounts (Scotland) Regulations 2014 and LASAAC guidance.</li> <li>The remuneration report was reviewed to check the officers disclosed are appropriate and that the amounts are accurate by agreeing to supporting documentation.</li> </ul>	<p>The accounts have been prepared in accordance with the relevant legislation and guidance.</p> <p>Only the Chief Officer's remuneration has been disclosed as the IJB had no other employees.</p>

We summarise below the work we have undertaken in the year to obtain assurances over the arrangements in place for each audit dimension and our conclusions on the effectiveness and appropriateness of these arrangements.

### Financial sustainability

In considering financial sustainability of the IJB we performed the following work:

- *review of the financial position of the IJB as at 31 March 2016 and future budgets and forecasts;*
- *review of Health and Social Care Partnership financial statement 2016-17 and Assurance over the Sufficiency of Resources; and*
- *review of Due Diligence 2016-17 outturn analysis.*

Management continue to work closely with the two funding providers and Scottish Government to anticipate the impact of future local government budget allocations. We consider that the IJB is financially sustainable and a going concern.

### Financial management

Our conclusion below is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *review of Financial Statement 2016-17 – Overview of Due Diligence Process;*
- *review of the financial regulations for the SBC Joint Integration Board; and*
- *consideration of the finance function and financial capacity within the IJB.*

The chief financial officer was appointed on an interim basis for six months on 7 March 2016. We noted that the chief financial officer has the appropriate skills, capacity and experience to support the IJB and effectively manage the organisation.

### Best Value

### Governance and transparency

In considering governance and transparency we performed the following work:

- *review of the the annual governance statement within 2015-16 accounts; and*
- *review of the Health and Social Care IJB code of corporate governance*

The IJB agreed to establish an audit committee in February 2016 and agreed the membership of the committee in June 2016. The chief internal auditor was appointed in February 2016 and will provide an independent opinion on the adequacy and effectiveness of the governance framework from 2016-17.

We consider the governance framework to be appropriate for the IJB.

### Value for money

We consider value for money and Best Value throughout our testing. Areas where we had a specific focus on value for money and Best Value are:

- *reviewing the expenditure of the IJB to ensure it was only concerned with the running costs of the IJB. This identified that all expenditure was in relation to running costs; and*
- *reviewing the 2016-17 financial statements and assurance over the sufficiency of resources; ensuring the focus is delivering quality service to meet increasing demand with a clear focus on value for money.*

The IJB have evidenced using their resources for the purposes of initial set up and running costs of the IJB.

**Financial sustainability**

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

Our conclusion below is derived from the following audit tests, carried to determine the effectiveness of the financial sustainability arrangements.

**Review of Health and Social Care Partnership financial statement 2016-17 and Assurance over the Sufficiency of Resources:**

- *The report sets out the financial statement of Scottish Borders IJB for 2016-17 to 2018-19. For the year 2016-17 and 2017-18, the total integrated budget is expected to be £157.2 million in both years, it is then forecast to increase to £158.3 million in 2018-19. It should be noted that for 2017-18 and 2018-19 the budget is indicative as both NHS Borders and Scottish Borders Council's funding settlements with the Scottish Government are for 2016/17 only and will be subject to change in absolute terms for future financial years.*
- *There are considerable efficiencies and savings assumptions requiring delivery within both NHS Borders and Scottish Borders Council's respective financial plans for 2016-17, on which the proposed levels of delegated and notional resources are based. Whilst the majority of these savings have been identified and plans have been or are in the process of being developed, the majority remain high risk and, in particular, there remains £0.793 million requiring further efficiencies or service change plans to be identified.*
- *To provide the IJB with assurance over the sufficiency of the resources, scrutiny has been undertaken as part of due diligence and risk assessment.*
- *There are a number of areas of emerging or unknown financial pressures that may impact the IJB during or beyond 2016-17 for which no budget provision has been made. The IJB will work with its partners to address any pressures which may emerge in order to identify appropriate remedial action through the development of appropriate solutions, including the use of additional Social Care funding, further targeted savings on service delivery and the issuing of supplementary directions over functions to be provided and the resources accompany them.*

**Recommendations**

- 1 *The IJB should agree funding levels for 2017-18 and 2018-19 as soon as possible from both partners to allow for budget setting and planning.*
- 2 *Plans should be put in place as a matter of urgency for efficiency savings.*
- 3 *Budget provision should be put in place for areas of emerging financial pressures. A risk register should be maintained and regularly updated as financial risks emerge. The budget should also be updated regularly to reflect these risks so that financial plans can be amended accordingly.*

**Conclusion:** Management continues to work closely with the two partners and the Scottish Government to anticipate the impact of future local government budget and NHS allocations. We consider that the IJB is a going concern, however there are risks around the uncertainty of future funding.



## Financial management

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

Our conclusion below is derived from the following audit tests, carried out to determine the effectiveness of the financial management arrangements. This included:

- *review of Financial Statement 2016-17 – Overview of Due Diligence Process;*
- *review of the financial regulations for the SBC Joint Integration Board; and*
- *consideration of the finance function and financial capacity within the IJB.*

The chief financial officer was appointed on an interim basis for six months on 7 March 2016. We noted that the chief financial officer has the appropriate skills, capacity and experience to support the IJB and effectively manage the organisation.

### Conclusion:

The IJB has appropriate financial capacity for current operations. This is supported by financial directions and scrutiny by senior management and IJB members.

### Governance and transparency

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

In considering governance and transparency we performed the following work:

- *review of the annual governance statement within 2015-16 accounts; and*
- *review of the Health and Social Care IJB code of corporate governance.*

The IJB agreed to establish an audit committee in February 2016 and agreed the membership of the committee in June 2016. The chief internal auditor was appointed in February 2016.

#### Conclusion:

We consider the governance framework to be appropriate for IJB. Transparency was achieved through the online publication of IJB papers and minutes.

### Value for money

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

We consider value for money and Best Value throughout our testing. Areas where we had a specific focus on value for money and Best Value are:

- *reviewing amounts disclosed in the of the IJB's financial statements to ensure they are in relation to the IJB. This identified that all expenditure was in relation to running costs, after removing the Chief Officer's remuneration prior to the establishment date; and*
- *reviewing the 2016-17 financial statements and assurance over the sufficiency of resources; ensuring the focus is delivering quality service to meet increasing demand with a clear focus on value for money.*

#### Conclusion:

The IJB has evidenced using its resources for the purposes of initial set up and running costs of the IJB. One adjustment was made to the financial statements to correctly reflect the remuneration of the Chief Officer.

# Appendices

To the Integration Joint Board members

#### Assessment of our objectivity and independence as auditor of Scottish Borders Integration Joint Board (the IJB)

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

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

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

#### General procedures to safeguard independence and objectivity

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

- Instilling professional values
- Communications
- Internal accountability
- Risk management

- 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

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

The audit fee charged by us for the period ended 31 March 2016 was £4,000. No other fees were charged in the period. No non-audit services were provided to the IJB and no future services have been contracted or had a written proposal submitted.

#### Independence and objectivity considerations relating to other matters

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

#### Confirmation of audit independence

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

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

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

Yours faithfully

**KPMG LLP**

### Adjusted and unadjusted audit differences

We are required by ISA (UK and Ireland) 260 to communicate all corrected and uncorrected misstatements, other than those which are trivial, to you. There were no audit adjustments required to the draft annual accounts.

A small number of minor presentational adjustments were required to some of the financial statement notes.

Area	Appointed auditors responsibilities	How we've met our responsibilities
Corporate governance	<p>Review and come to a conclusion on the effectiveness and appropriateness of arrangements to ensure the proper conduct of the bodies affairs including legality of activities and transactions.</p> <p>Conclude on whether the monitoring arrangements are operate and operating in line with recommended best practice.</p>	Page 9 sets out our conclusion on these arrangements.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements on whether financial statements give a true and fair view of the financial position of audited bodies and their expenditure and income.</p> <p>Provide an opinion on whether financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.</p>	Page 2 summarises the opinion we expect to provide.
Financial statements and related reports	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports.	Page 2 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	No notifications to Controller of Audit required.
Financial statements and related reports	Review and conclude on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.	Pages 2 and 9 set out our conclusion on these arrangements.
WGA returns and grant claims	<p>Examine and report on WGA returns.</p> <p>Examine and report on approved grant claims and other returns submitted by local authorities.</p>	<p>The IJB is below the threshold for the completion of audit work on the WGA return.</p> <p>We have not reported on any grant claims.</p>

# Appendix three

## Appointed auditors responsibilities (continued)

Area	Appointed auditors responsibilities	How we've met our responsibilities
Standards of conduct – prevention and detection of fraud and error	Review and conclude on the effectiveness and appropriateness of arrangements for the prevention and detection of fraud and irregularities, bribery and corruption and arrangements to ensure the bodies affairs are managed in accordance with proper standards of conduct. Review National Fraud Initiative participation and conclude on the effectiveness of bodies engagement.	Page 9 sets out our conclusion on these arrangements. Participation in the National Fraud Initiative is not relevant for the IJB in 2015-16.
Financial position	Review and conclude on the effectiveness and appropriateness of arrangements to ensure that the bodies financial position is soundly based.	Pages 4 and 7 set out our conclusions on these arrangements.
Financial position	Review performance against targets.	This is not applicable as no targets have been set in the IJB's first year.
Financial position	Review and conclude on financial position including reserves balances and strategies and longer term financial sustainability.	Pages 4 and 7 set out our conclusion on the IJB's financial position and longer term financial sustainability.
Best Value	Be satisfied that proper arrangements have been made for securing Best Value and complied with responsibilities relating to community planning.	Page 6 sets out our conclusion on these arrangements.
Performance information	Review and conclude on the effectiveness and appropriateness of arrangements to prepare and publish performance information in accordance with Accounts Commission directions.	The Annual Performance Report for 2015-16 has not yet been published.



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