



## **East Ayrshire Integration Joint Board**

Report to the Audit and Performance Committee (APC), Members of the Integrated Joint Board (IJB) and the Controller of Audit on the 2019/20 audit

Issued on 19 August for the meeting on 26 August 2020

# Contents

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## 01 Our report

Introduction 3

### ***Financial statements audit***

Quality indicators 8

Our audit explained 9

Significant risks 10

Other significant findings 13

Coronavirus (Covid-19) outbreak 14

Our audit report 15

Your annual report 16

### ***Audit dimensions and best value***

Financial management 19

Financial sustainability 22

Governance and transparency 26

Value for money 29

Best value 32

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## 02 Sector developments

Responding to COVID-19 34

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## 03 Appendices

Purpose of our report and responsibility statement 37

Action plan 38

Our other responsibilities explained 40

Independence and fees 41

Quality of public audit in Scotland 42

# Introduction

## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Performance Committee (“the APC”) of East Ayrshire Integration Joint Board (“the IJB” “the Board”) for the 2019/20 audit. The scope of our audit was set out within our planning report presented to the APC in March 2020.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the IJB in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers’ duty to secure best value.



# Introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### **Conclusions from our testing**

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.

The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 10.

No misstatements in excess of our reporting threshold of £0.196m or disclosure deficiencies have been identified up to the date of this report.

### **Status of the financial statements audit**

Outstanding matters to conclude the audit include:

- Receipt of signed financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2020.

### **Conclusions on audit dimensions**

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

Due to the impact of the COVID-19 pandemic and cancellation of Committee meetings up to the end of June, we did not prepare a separate interim report as planned and have instead reported our detailed findings and conclusions within this report.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the IJB at this stage.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions (continued)

#### *Financial Management*

The IJB has effective financial planning and management arrangements in place with a strong and consistent finance team. While variances have arisen during the year, the IJB has effectively managed the position to ensure expenditure remains within the funding available. Further work is still required to explicitly link budgets with outcomes.

The IJB continues to face challenges in achieving its planned savings. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required.

#### *Financial sustainability*

The IJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. However, while progress is evident from the original Medium Term Financial Plan (MTFP), it is still faced with significant financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk. It is critical that this is reflected in the comprehensive review of the MTFP planned for 2020/21.

The work of the Strategic Commissioning Board (SCB) is positive, with resources being directed towards transformation and change. It is important that a clear benefits tracker is put in place to demonstrate that these projects are delivering the outcomes planned.

#### *Governance and Transparency*

The IJB has strong leadership and, with its partners, has a clear vision. Appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

Further improvements have been made to the IJB's approach to openness and transparency in response to our audit recommendation from last year's work, with all agendas and minutes of the Audit and Performance Committee now published on the website.

The IJB has continued with its streamlined approach to linking the strategic plans with the resources required which is recognised good practice. We note there are plans to implement a longer term focus when the current Strategic Plan 2018-2021 ends. It is important that this work is progressed in line with the updated MTFP to ensure a clear linkage with priorities, outcomes and resources. This should take into account lessons learned from the COVID-19 pandemic.

#### *Value for money*

The IJB continues to have an embedded performance management culture. Performance data has shown some areas of improved performance with other areas still representing a challenge. Prior to the COVID-19 pandemic, a clear process was in place to aim to address areas of low performance. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

Our detailed findings are included on pages 17 to 31 of this report. We will consider progress with the agreed actions as part of the 2020/21 audit.

# Introduction (continued)

## The key messages in this report (continued)

### **Emerging issues**

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the IJB as an Appendix on pages 35 and 36 of this report.

### **Next steps**

An agreed Action Plan is included as an Appendix on pages 38 to 39 of this report which includes a follow up of progress on previous years agreed actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

### **Added value**

Our aim is to add value to the Board by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

# Financial statements audit



# Quality indicators

## Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

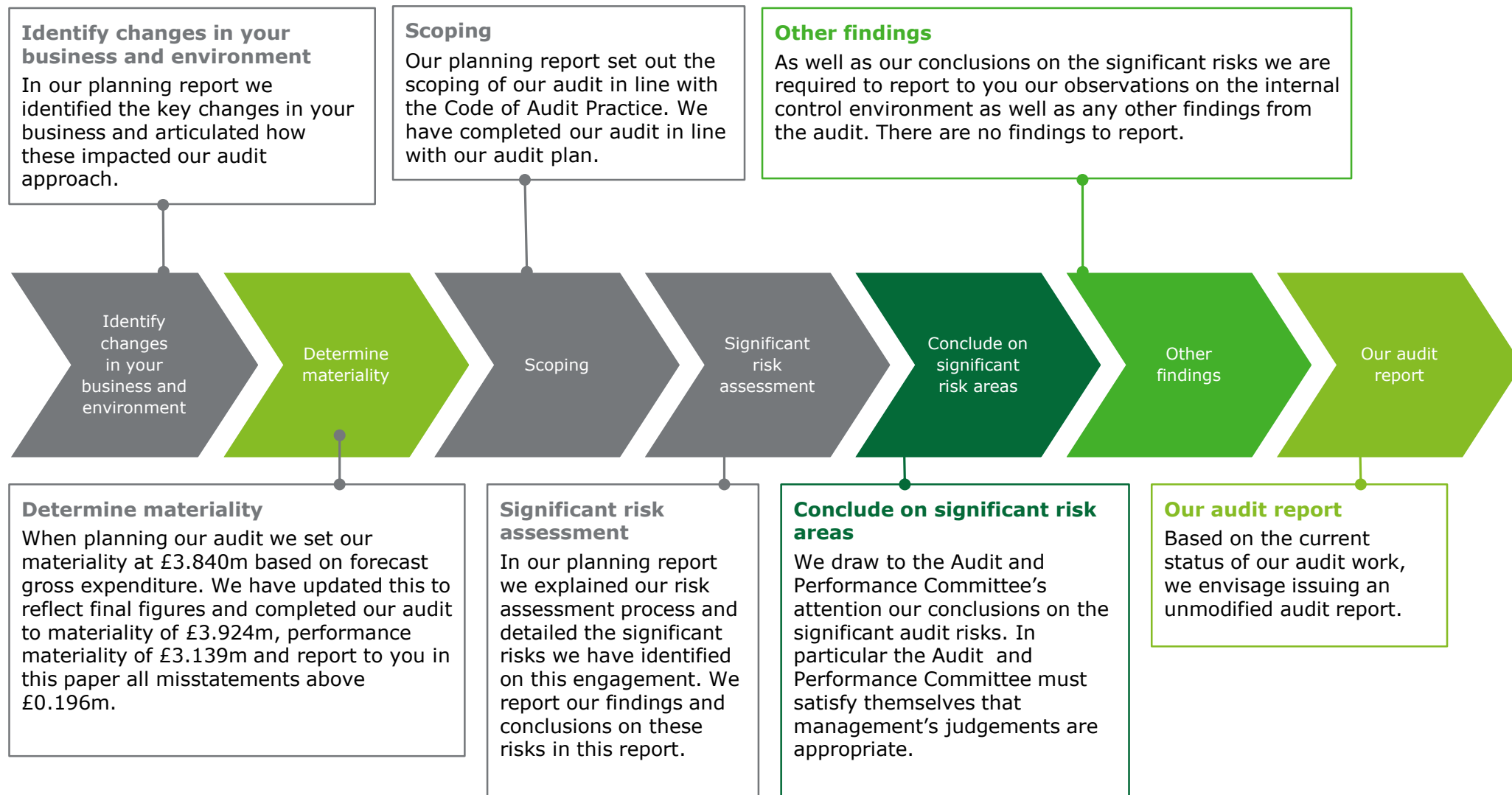
Area	Grading	Reason
Timing of key accounting judgements	●	There are no significant accounting judgements included in the IJB accounts, which is in line with our expectations and understanding of the IJB.
Adherence to deliverables timetable	●	There were delays in receiving the initial draft of the financial statements, which we received on 17 June 2020 (2 days after the due date), and the full annual report and accounts, which we received on 24 June 2020 (9 days after the due date). We were advised that this was due to competing priorities with COVID-19 mobilisation returns due around the same time, although this did not create significant issues.
Access to finance team and other key personnel	●	Deloitte and East Ayrshire IJB have worked together to facilitate remote communication during the audit. The Council sharing tool for sharing information did not work during the course of the audit field work, and going forward this should be fixed, or other methods of sharing information should be identified, e.g. Deloitte Connect.
Quality and accuracy of management accounting papers	●	On the whole documentation provided has been a good standard. This included documentation that reconciled to the draft financial statements.
Quality of draft financial statements	●	A full draft of the annual report and accounts was received for audit on the 24 June 2020. The draft was of a high standard with limited changes required.
Response to control deficiencies identified	●	No control deficiencies were identified.
Volume and magnitude of identified errors	●	We have not identified any significant financial adjustments to date.

! Lagging    ! Developing    ● Mature









# Our audit explained

We tailor our audit to your business and your strategy



# Significant risks

## Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Completeness and accuracy of income			D+I	Satisfactory		Satisfactory	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Risk 1 – Completeness and accuracy of income

### Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.

The main components of income for the IJB are contributions from its funding partners, namely East Ayrshire Council (EAC) and NHS Ayrshire and Arran (NHS A&A). The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from the Health Board and the Council.



### Key judgements and our challenge of them

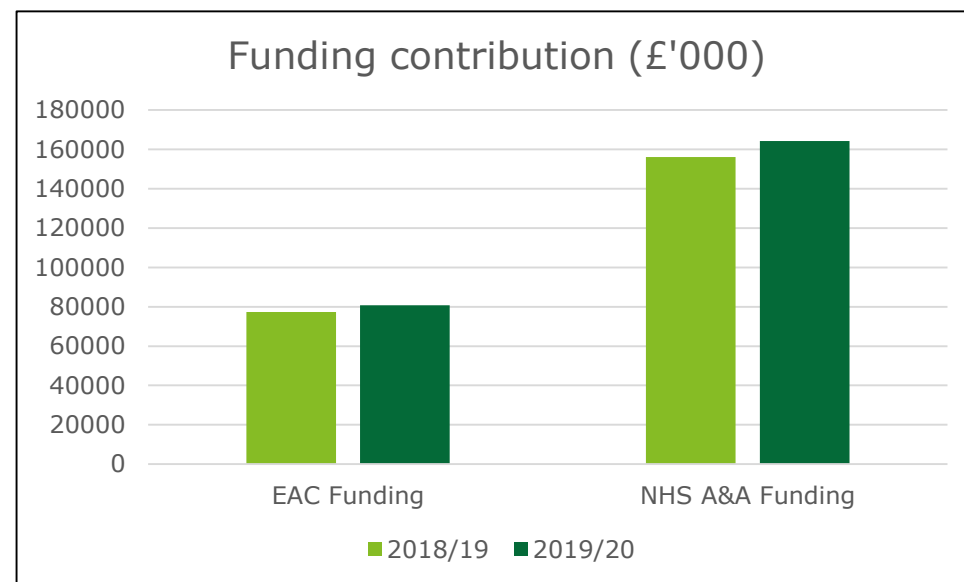
Given the year-end deficit projected by the IJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.



### Deloitte response

We have performed the following:

- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any amendments have been appropriately applied;
- tested the reconciliations performed by the IJB at 31 March 2020 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2019/20 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.



### Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

# Significant risks (continued)

## Risk 2 - Management override of controls

### Risk identified

In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Board's controls for specific transactions.



### Key judgements

The key judgement in the financial statements is that which we have selected to be the significant audit risk around the completeness and accuracy of income (page 11). This is inherently the area in which management has the potential to use their judgement to influence the financial statements.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The Board's results throughout the year were projecting underspends in operational areas. This was closely monitored and whilst projecting overspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

### Journals

We have performed design and implementation testing of the controls in place for the review of management accounts.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

### Accounting estimates and judgements

We reviewed the financial statements for accounting estimates and judgements which could include biases that could result in material misstatements due to fraud.

We have not identified any significant accounting estimate and judgements from our testing.

### Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

# Other significant findings

## Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

### **Qualitative aspects of your accounting practices:**

The IJB accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code.

### **Other matters relevant to financial reporting:**

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

### **Significant matters discussed with management:**

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation and the need to review medium to long term plans.

We will obtain written representations from the Board on matters material to the financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# Coronavirus (Covid-19) outbreak

## Impact on the annual report and audit

The current crisis is unprecedented in recent times. The NHS and social care sectors are most directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Audit and Performance Committees need to consider. We summarise below the key impacts on reporting and audit:

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### Impact on Board annual report and financial statements

The Board need to consider the impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures;
- Change in the funding regime for 20/21;
- Onerous contracts and any potential provisions;
- Going concern; and
- Events after the end of the reporting period.

### Impact on our audit

Covid-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Timetable of the audit has been shorter given initial accounts delay and Board date.
- Consideration of impacts on the areas of the financial statements and annual report listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with the Board, we will continue to consider any developments for potential impact up to the finalisation of our work on 26 August 2020.

# Our audit report

## Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



### **Our opinion on the financial statements**

Based on our audit work completed to date we expect to issue an unmodified audit opinion.



### **Material uncertainty related to going concern**

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

While the Board is faced with financial sustainability issues (as discussed on page 24), it achieved a balanced budget in 2019/20 and has agreed a balance budget for 2020/21. There is also a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



### **Other reporting responsibilities**

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 16.

# Your annual report

We are required to provide an opinion on the auditable parts of the remuneration and staff report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Requirement	Deloitte response
Management Commentary	The management commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The Board also focuses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>Pending amendments for minor improvements in the final version of the annual report and accounts, for example to include prior year comparatives for KPIs, we are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p>
Remuneration Report	The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts regulations. We have required management to make minor changes to include more commentary on action plans, including information on any action taken to implement these. Pending these changes, we will be able to conclude whether the Annual Governance Statement is consistent with the financial statements, our knowledge and the accounts regulations.



# Audit dimensions and best value



# Audit dimensions

## Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This section of our report sets out our conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, but also covers relevant risks identified by Audit Scotland.



**Financial management**

**Financial sustainability**

**Value for money**

**Governance and transparency**

# Financial management

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



## Areas considered

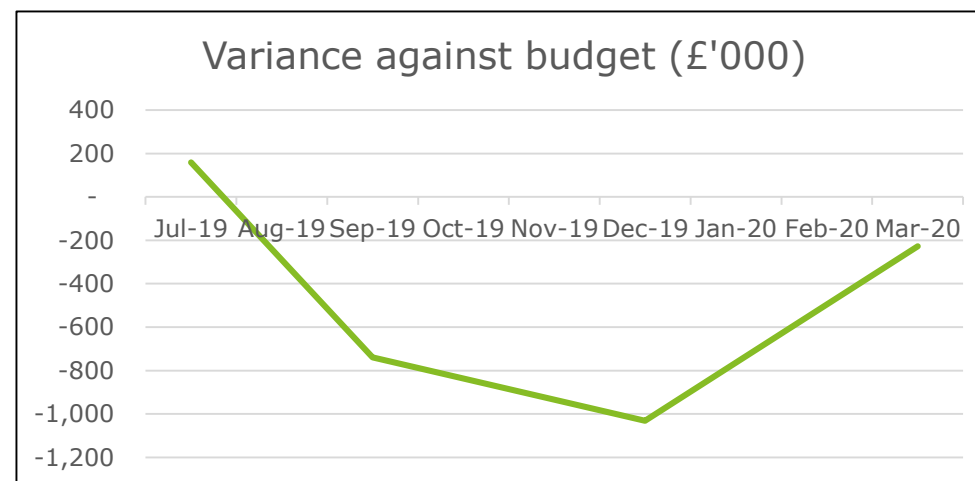
Our approach to the audit dimensions is risk focused. While we have not identified any specific risks in our audit plan, we have continued to review the IJB's financial management arrangements including the extent to which there is effective scrutiny over both operational spend as well as delivery of savings plans.

## Budget monitoring

**2018/19 Conclusion:** the IJB achieved an underspend of £0.213m on directly managed services and £0.338m on East Ayrshire's share of lead partnership managed services in 2018/19, based on a final budget of £250.032m.

**2019/20 Update:** the IJB largely reported an underspend position throughout the year, with this peaking at an underspend of £1m in December 2019, as illustrated in the graph opposite. The final position at March 2020 was a small underspend of £0.227m which has been carried forward and earmarked within the IJB accounts for future years.

While the overall balanced position is positive, a number of services experienced budget pressures during the year which were offset by recurring and non-recurring savings.



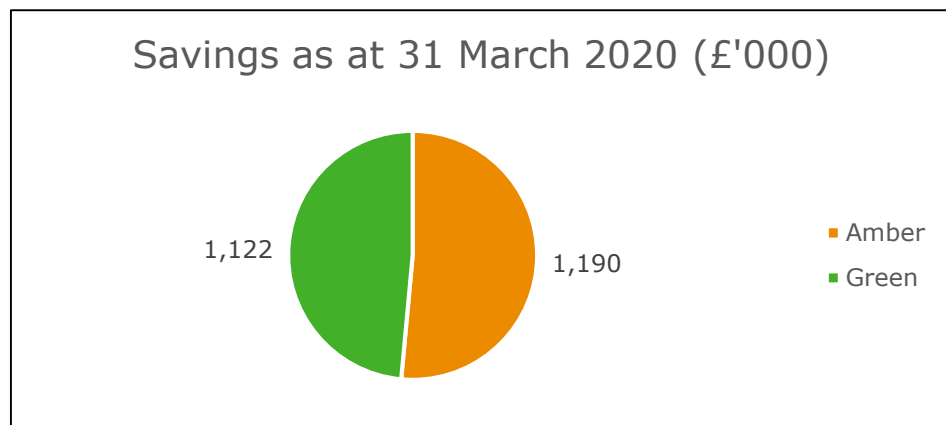
**2019/20 Conclusion:** The achievement of a small underspend position at the end of March 2020 has demonstrated the success of the close monitoring and management of the financial position during the year. While variances have arisen during the year, the IJB has effectively managed the position to ensure expenditure remains within the funding available.

# Financial management (continued)

## Savings Plans

**2018/19 Conclusion:** The approved 2018/19 budget included a need to make cash releasing efficiency savings (CRES) of £5.616m. £1.175m were recognised as being achieved, with £4.441m still ongoing.

**2019/20 Update:** the 2019/20 budget included a CRES requirement of £2.312m. The March 2020 outturn reported progress towards achievement of the approved savings, classified as either Amber or Green. The shortfall in achievement of planned savings in 2019/20 was offset by non-recurring savings elsewhere.



**2019/20 Conclusion:** the IJB continues to face challenges in achieving its planned savings. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required.

## Financial reporting

**2018/19 Conclusion:** The IJB made improvements to the quality of financial monitoring reports and has effective integrated budget monitoring arrangements in place. We recommended that the IJB incorporate actual spend incurred in any given period as part of its ongoing reporting to provide assurance to the IJB that the financial performance is in line with the budget. We also recommended improvements to the budget setting process to improve the links between budgets and outcomes.

**2019/20 Update:** We are pleased to note that the IJB has implemented our recommendation with financial monitoring reports now including actual expenditure to date.

The budget setting process now includes input from members of the Strategic Planning Group, with a clear focus on prevention, early intervention and hospital discharge initiatives. The Strategic Plan flows into Service Improvement Plans, which is a key mechanism for setting out service level contributions to the delivery of the IJB's objectives. However, further work is still required to more explicitly link budgets and outcomes. Management has confirmed that further work will be undertaken as part of the update to the Medium Term Financial Plan (MTFP) in 2021 to refine these links aligned to the review of the Strategic Plan.

**2019/20 Conclusion:** The IJB continues to have effective financial planning and management arrangements in place, with further improvements made in the year with the reporting of actual expenditure incurred. Further work is still required to explicitly link budgets with outcomes.

# Financial management (continued)

## Financial capacity

**2018/19 Conclusion:** No issues were identified with the financial skills, capacity and capability of the finance team, but reported that this was an area that the IJB should continue to monitor closely in view of the transformation programme and the key role that finance play.

**2019/20 Update:** The finance team continue to be led by the Chief Finance Officer who also has the role of Head of Transformation at East Ayrshire Council. He is supported on a day to day basis by the Senior Manager – Finance and his team who provide finance and accounting support to the IJB.

**2019/20 Conclusion:** the IJB continues to have a strong and consistent finance team with the relevant financial skills, capacity and capability.

## Internal audit

East Ayrshire Council's Chief Internal Auditor provides the Internal Audit function for East Ayrshire IJB. The NHS Ayrshire and Arran Health Board also share relevant work via their Internal Auditor, Grant Thornton.

The Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit.

## Standards of conduct for prevention and detection of fraud and error

We have reviewed the IJB's arrangements for the prevention and detection of fraud and irregularities. Overall we found the IJB's arrangements to be designed and implemented appropriately.

## Deloitte view – financial management

The IJB has effective financial planning and management arrangements in place with a strong and consistent finance team. The achievement of a small underspend position at the end of March 2020 has demonstrated the success of the close monitoring and management of the financial position during the year. While variances have arisen during the year, the IJB has effectively managed the position to ensure expenditure remains within the funding available. Further work is still required to explicitly link budgets with outcomes.

The IJB continues to face challenges in achieving its planned savings. In order to ensure future financial sustainability, it is critical that the Board set realistic targets with clear plans in place, ensuring there is sufficient lead time to implement the changes required.

# 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.



## Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in audit plan:

*"There is a risk that the plans for efficiency savings, achieving financial balance and service redesign are not robust enough to allow the benefits to be realised".*

## Budget setting

**2018/19 Conclusion:** a 2019/20 balanced budget was set which included high risk savings of £2.312m, in addition to £1.334m baseline savings already identified. Whilst the IJB has historically achieved savings targets and has plans to address the baseline savings, this still represented a significant financial risk for the IJB at a time of significantly increasing demand for services.

**2019/20 Update:** a balanced 2020/21 budget was approved by the Board on 25 March 2020. The budget required cash releasing savings of £2.671m in order to achieve a balanced position. Savings plans were agreed as part of the budget, which includes the following main targeted categories of savings:

- Children's Health Care and Justice Services - £0.315m;
- Community Health and Care Services - £0.931m;
- Primary Care & Out of Hours Services - £0.219m;

- IJB Business Support – Council commissioned services - £0.075m;
- IJB Business Support – NHS commissioned services - £0.046m;
- IJB Finance – Council commissioned services - £0.005m; and
- General - savings proposals - £1.080m.

In setting its 2020/21 budget the Board has recognised that a number of risks exist including:

- Pressures in service areas impacted by demographic changes;
- Continuing demand for high cost children's outwith placements and adult care packages;
- Implementation of new legislation;
- Potential costs arising from GP practices in difficulty and unfunded element of Intermediate Care and Reablement;
- Unscheduled care and expectations around Set Aside;
- The impact of decisions taken by other Ayrshire IJBs;
- Safe staffing legislation requirements;
- Fixed funding allocations;
- Continuing political and economic uncertainty from EU Exit; and
- Potential financial and economic impact of the COVID-19 pandemic.

# Financial sustainability (continued)

## Budget setting (continued)

### Impact of COVID-19

In setting the budget, the IJB recognised that current developments in relation to COVID-19 will incur significant additional costs, which the IJB has assumed will be ultimately covered by the government. The IJB also recognised that it may need to consider emergency budget measures as the impact, financially and operationally of mobilisation and response to COVID-19 are better understood.

The Health and Social Care Partnership (HSCP) developed a mobilisation plan detailing the additional activities undertaken to support its response to COVID-19, alongside the estimated financial impact. This is being monitored and updated on a regular basis, with the estimated costs associated with the HSCPs submitted to the Scottish Government. The most recent submission outlines an estimated cost of £12m for the duration of 2020/21. There is an expectation from the HSCP that the Scottish Government will provide additional funding to IJBs to support additional costs aligned to mobilisation plans. The full funding allocation has not yet been confirmed, and the interim allocation to address immediate social care pressures, is not sufficient to fund all pressures.

**2019/20 Conclusion:** A balanced budget has been set for 2020/21, which incorporate savings targets in line with savings achieved in previous years. We are therefore satisfied that a robust budget setting process is in place. However, the impact of COVID-19 remains a significant risk which could impact on the IJB achieving short term financial balance.

## Reserves

**2018/19 Conclusion:** the IJB Reserve Strategy approved in 2016 approved a reserve level of no more than 4% of revenue expenditure by the end of the three year budget cycle. As part of the annual budget process, the IJB agreed that given the significant financial pressures facing the partnership and the requirement to deliver significant savings, this optimal reserve balance was aspirational.

**2019/20 Update:** the IJB reviewed its Reserves Strategy in March 2020, and revised it to aspire to hold a minimum of 2% of annual budgeted expenditure at the end of the three year budget cycle. As noted above this optimal reserves balance is still aspirational.

In setting the 2020/21 budget, the Board did not set a target for allocating any resources to the general reserves, but agreed that consideration may be given to this in future to allow the IJB greater flexibility to manage demand fluctuations and to support financial planning over the medium to longer term.

**2019/20 Conclusion:** In line with good practice, the IJB continues to review its reserves strategy and it is positive to note that it has recognised that consideration may be given to allocating resources to reserves in the future to support financial planning over the medium to longer term. We will monitor progress with this in our 2020/21 audit.

# Financial sustainability (continued)

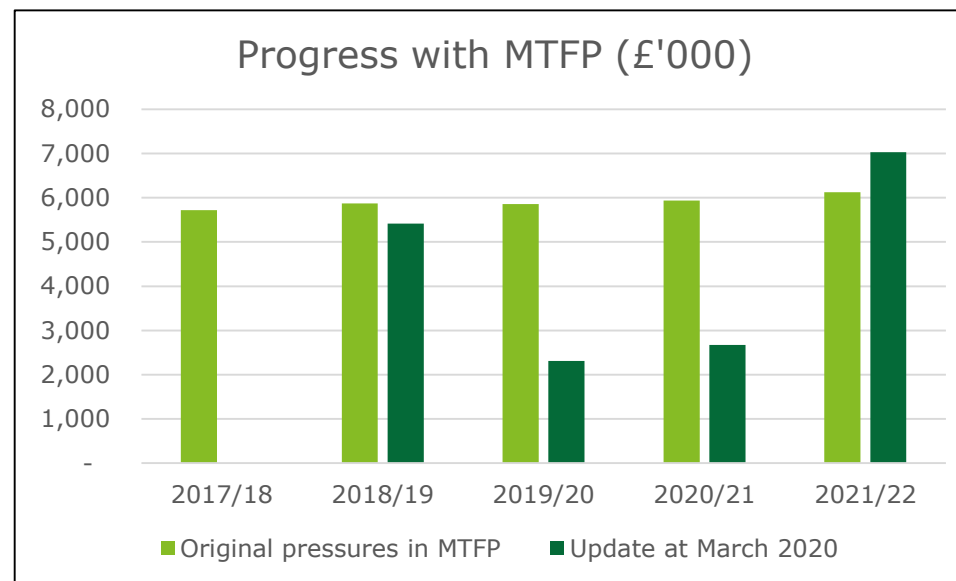
## Medium term financial planning

**2018/19 Conclusion:** In the medium term, the IJB is faced with an extremely challenging financial position as the current level of service provision is not financially sustainable. The Strategic Commissioning Board (SCB) is driving the delivery of transformational change and the Medium Term Financial Plan (MTFP) was due to be updated in 2019/20.

**2019/20 Update:** The 2017/18 - 2021/22 MTFP is updated on an annual basis and was most recently reviewed as part of the annual budget process in March 2020. This includes revising the forecast for 2021/22. Progress has been made since the original MTFP was approved, as illustrated in the graph opposite – reducing the cumulative budget pressures for the 5 year period from £29.514m to £17.431m. Despite the pressures noted in 2018/19 and 2019/20, the IJB has operated within its delegated resources through close monitoring of the financial position.

In 2017/18, East Ayrshire Council (EAC) provided additional funding of £2.205m to offset overspends in the year, with the agreement that this would be repayable by way of reduced funding in future years. Progress with this repayment is shown below, with the full balance expected to be repaid by 2022/23:

	£'000
2017/18 debt due to EAC	2,205
2018/19 repayment (baseline adjustment)	(0.250)
2019/20 repayment (baseline adjustment)	(0.250)
2019/20 additional repayment	(0.964)
<b>Balance outstanding at 31 March 2020</b>	<b>0.741</b>
2020/21 repayment (baseline adjustment)	(0.250)
<b>Projected balance at 31 March 2021</b>	<b>0.491</b>



The IJB plans to undertake a comprehensive review of the plan during 2021 at which time it will be aligned with the updated Strategic Plan. The IJB recognises an opportunity to take a longer term strategic view, aligning both the Strategic Plan and a Long Term Financial Plan to the Community Plan 2015-30.

**2019/20 Conclusion:** It is positive to note that the current MTFP is continually revisited as part of the annual budget process and that plans are in place for a comprehensive review in 2021. There is also good progress in reducing the baseline pressures as set out in the MTFP. Given the risks associated with COVID-19 highlighted in the 2020/21 budget, discussed on page 23, these will need to be taken into account in the updated medium and long term plans. It is therefore critical that this comprehensive review takes place during 2020/21. The IJB continues to be faced with an extremely challenging financial position.



# Financial sustainability (continued)

## Transformation

**2018/19 Conclusion:** The IJB has demonstrated a clear commitment to embrace change, including the earmarking of funds to be used to facilitate change and reduce recurring costs. In response to the challenges that the IJB faces, it put in place a Strategic Commissioning Board (SCB), which is an officer led group that reports to the APC, which is tasked with transformation and efficiency savings to ensure the financial sustainability of the organisation.

**2019/20 Update:** The SCB continued to meet during 2019/20. In 2017/18, East Ayrshire Council provided £1m funding towards transformation. This has been supplemented in 2019/20 by £1.201m uncommitted balances carried forward which all funding parties have agreed can be retained by the IJB for transformation purposes. The £1.201m was earmarked from the uncommitted reserves balance, leaving a remaining uncommitted reserves balance of £0.318m from a brought forward balance of £1.519m, which will be taken forward by the SCB on future projects in the coming year. Included within the committed amount of £1.201m in this was the approval of funding for a Project Manager to support the transformation programme until March 2021.

The transformation programme which has been agreed to date and progressing include:

- Review of care at home services;
- Review of adult day care services;
- Review of 24 hour care;
- Review of financial inclusion services;
- Review of IJB finance services;
- Implementation of the 'front door' service;
- Implementation of a new care management system with finance module; and

- Implementation of care at home electronic scheduling and monitoring system.

**2019/20 Conclusion:** The IJB continues to demonstrate a clear commitment to transformational change and is progressing with its transformation programme and has allocated specific resources to drive forward change, including a Project Manager. It is important that a clear benefits tracker is put in place to demonstrate that the transformation initiatives are achieving the desired outcomes.

### Deloitte view – Financial sustainability

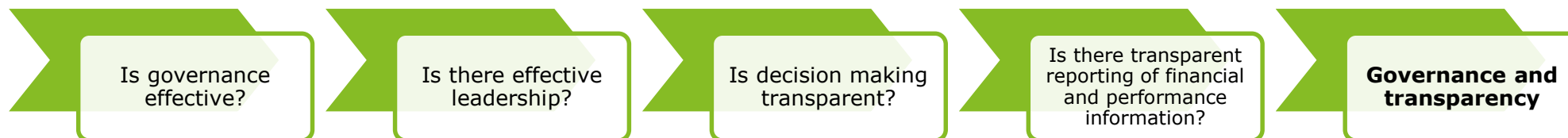
As noted on page 22, the IJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. However, while progress is evident from the original MTFP, it is still faced with significant financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

It is positive to note that the current MTFP is continually revisited as part of the annual budget process and that plans are in place for a comprehensive review in 2021. Given the risks associated with COVID-19, these will need to be taken into account in updated medium and long term plans. It is therefore critical that this comprehensive review takes place.

The work of the SCB is also welcomed, with resources being directed towards transformation and change. It is important that a clear benefits tracker is put in place to demonstrate that these projects are delivering the outcomes planned.

# 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



## Areas considered

Our approach to the audit dimensions is risk focused. Our planning paper identified the following risk:

*“There continues to be an ongoing risk that that the IJB does not achieve the full benefits of integration. We will consider the ongoing work to review the key governance documents of the IJB and deliver transformational change”.*

## Leadership

**2018/19 Conclusion:** The IJB has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of East Ayrshire. Board members and staff support the vision.

**2019/20 Update:** There have been a few changes in the Board composition during the year including changes to both the Chair and Vice Chair following changes to NHS Ayrshire and Arran’s voting members. These changes transitioned smoothly with appropriate training and support.

**2019/20 Conclusion:** The IJB continues to have strong leadership and the transition of new board members during the year went smoothly.

## Governance and scrutiny arrangements

**2018/19 Conclusion:** It was positive to note that the IJB and its partners are reviewing and updating the governance arrangements for the IJBs to take cognisance of the experience from early integration. We noted that the IJB had a number of key governing documents which had not been reviewed or refreshed since 2015 therefore recommended that the IJB carry out a periodic review of its key governing documents to ensure that they are still fit for purpose.

**2019/20 Update:** Progress has been made in the past few years in a number of areas to review and enhance the governance and scrutiny arrangements. However, some key governance documents have not been reviewed recently, such as the Scheme of Delegation, which was last reviewed and updated in 2017.

The IJB took part in a pan-Ayrshire review to develop approaches to “Directions”, which was supported by the Scottish Government and resulted in guidance being issued to all IJBs by the Scottish Government in January 2020. This was designed to help empower IJBs to use the totality of resources at their disposal to better meet the needs of the population. It also provides greater clarity on the legal mechanism of Directions and the relationship between the three bodies.

# Governance and transparency (continued)

## Governance and scrutiny arrangements (continued)

The IJB completed a self-assessment on how it has progressed the proposals made by the Ministerial Strategic Group (MSG) to improve integration. Of 25 national action points raised 23 have been actioned and the remaining 2 are partially actioned.

In response to the COVID-19 pandemic, all formal governance meetings were suspended and delegated authority to the Chief Officer to take operational decisions that would normally require Board approval. These arrangements have been kept under review and full Board meetings were held on 17 June 2020 and 30 June 2020.

**2019/20 Conclusion:** The IJB continues to have robust governance and scrutiny arrangements in place and continues to identify areas for improvement. Appropriate arrangements have been put in place in response to the COVID-19 pandemic. The IJB should continue to review all governance documents to ensure they are up to date and fit for purpose.

## Strategic Plan

**2018/19 Conclusion:** we commended the excellent example of ensuring a consistent approach by lining up the strategic plans with the resources, being workforce, assets and finance, and how the IJB is contributing to the relevant national health and wellbeing outcomes.

**2019/20 Update:** the IJB approved the 2019/20 Annual Review of the Strategic Plan in March 2020, including the Workforce Plan and Property and Asset Management Strategy for the period 2018-21. This allowed the IJB to set out plans for these key strategies for 2020/21 and future years. The annual review highlighted taking a longer term approach to future HSCP Strategic Plans going forward. It also highlights the New Models of Care, which will include deploying the Framework for Community Health and Social Care Integrated Services as a tool for service planning, delivery and improvement across four components:

- establishing a foundation for transformation;
- embedding characteristics of effective, sustainable integrated care;
- delivering components of effective, sustainable integrated care; and
- creating an environment for effective, sustainable integrated care.

It is also positive to note that a dedicated Communication Programme Officer was recruited in July 2019 with a key focus to support the delivery of transformational change across the Partnership, given that transformation will be key to delivering sustainable lasting savings and efficiencies in years to come.

**2019/20 Conclusion:** the IJB continues to have a robust approach to strategic planning. This includes plans to implement a longer term focus when the current Strategic Plan 2018-2021 ends. It is important that this work is progressed in line with the updated MTFP to ensure a clear linkage with priorities, outcomes and resources. The opportunity should also be taken to take into account lessons learned from the COVID-19 pandemic.

# Governance and transparency (continued)

## Openness and transparency

**2018/19 Conclusion:** we concluded that in general, the IJB has a good attitude to openness and transparency and there is a supportive culture that underpins this. However, we did note that this could be further enhanced by publishing the papers and minutes of the Audit and Performance Committee online.

**2019/20 Update:** In response to our recommendation, the IJB's approach to openness and transparency has been further enhanced with the Audit and Performance Committee agendas and minutes now being published on the website.

**2019/20 Conclusion:** the IJB continues to demonstrate a good attitude towards openness and transparency which have been further enhanced during the year.

## Deloitte view – Governance and transparency

The IJB has strong leadership and, with its partners, has a clear vision for what it wants to achieve for the people of East Ayrshire. The transition of new Board members during the year went smoothly and appropriate governance arrangements have been put in place in response to the COVID-19 pandemic.

We are pleased to note that further improvements have been to the IJB's approach to openness and transparency in response to our audit recommendation, with all agendas and minutes of the Audit and Performance Committee now published on the website.

We continue to commend the IJB on their streamlined approach to linking the strategic plans with the resources required, which includes an annual review to ensure that the existing plans remain fit for purpose. We note there are plans to implement a longer term focus when the current Strategic Plan 2018-2021 ends. It is important that this work is progressed in line with the updated MTFP to ensure a clear linkage with priorities, outcomes and resources. This should take into account lessons learned from the COVID-19 pandemic.

# Value for money

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



## Areas considered

Our approach to the audit dimensions is risk focused. While we did not identify any specific risks in this area in our audit plan, we have continued to review the IJB's performance against its objectives, the IJB's reporting and monitoring of these and the actions taken to improve the performance of the IJB.

## Performance management

**2018/19 Conclusion:** the IJB has an embedded performance management culture supported by its performance management systems which analyse data, track progress and identify actions. In addition, there is regular performance information which is provided to the Audit and Performance Committee, IJB members, operational managers and is publicly reported.

**2019/20 Update:** it is positive to note that Service Improvement Plans are agreed annually and progress reported to the Audit and Performance Committee. This recognises the IJB's commitment to delivering continuous improvement across services and supporting more positive outcomes for its residents and communities. These improvement activities are aligned to the partnerships strategic priorities, which in turn contribute to the national health and wellbeing outcomes.

The latest report to the Audit and Performance Committee highlighted significant progress being made to deliver improvements against each of the three Service Improvement Plans at mid-point of the year, as follows:

- **Community Health and Care Services Plan:** 55% complete, with sixteen actions fully complete, six actions more than 50% complete, and the remaining seven showing progress of between 30% and 50%;
- **Primary Care Services Plan:** 55% complete, with seven actions full complete, eleven actions reporting completion rates of between 50% and 95%, with the remaining ten actions progressing at expected levels; and
- **Children's Health Care and Justice Services Plan:** 50% complete, with two actions achieving 75% completion levels and the remaining six actions progressing at levels of at least 50%.

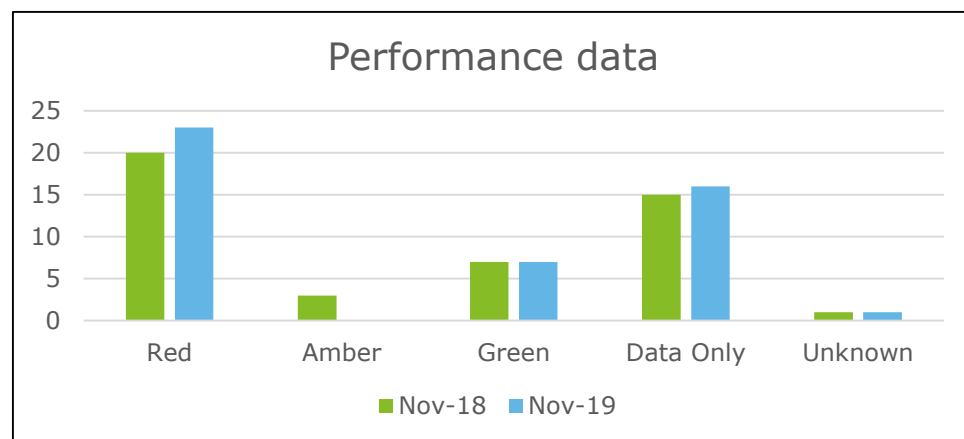
**2019/20 Conclusion:** the IJB continues to have an embedded performance management culture supported by its performance management systems which analyse data, track progress and identify actions. In addition, there is regular performance information which is provided to the Audit and Performance Committee, IJB members, operational managers and is publicly reported. As a result of the COVID-19 pandemic, bodies have been granted the flexibility to produce shortened Annual Performance Reports (APR). However, we have been advised that the IJB aim to publish their APR later in the year to closely align with their normal annual performance monitoring arrangements.

# Value for money (continued)

## Performance data

**2018/19 Conclusion:** From our review of performance indicators, while there was a decline in performance, there was clear reporting of the performance to the APC via Partnership Performance Reports and Service Improvement Plans, which included how the IJB intended to address each area of under performance.

**2019/20 Update:** we have reviewed the latest performance indicators reported for the period to November 2019 and note that the number of 'red' indicators has increased to 23 and the number of green indicators has remained at 7 as illustrated below.



The performance analysis disclosed within the Management Commentary of the annual accounts clearly sets out how the IJB is performing against national benchmarks, which is largely a positive picture. It has also reported how the IJB compares nationally in relation to the six Ministerial Strategic Group (MSG) Integration Indicators which notes the following:

- EA IJB is currently reporting a higher rate of emergency admissions, unscheduled bed days and A&E attendance rates than Scotland;
- EA IJB bed days lost to hospital discharge is significantly below Scotland (4.3 per 1,000 compared to 9.8 per 1,000 in Scotland) and since 2009 has consistently met the national zero target for discharge delays over 2 weeks; and
- The percentage of last six months of life in community setting and balance of care indicators are largely in line with the Scottish position.

As noted on page 29, the IJB has Service Improvement Plans in place which include improvement actions for each key service in the year, and demonstrates a clear focus on continuous improvement.

Examples of where performance has improved in 2019/20 and where further work is required is provided below:

- The number of people aged 65+ residents in care home and number of bed days lost as a result of delayed discharge has reduced from 2018/19. This is as a result of the IJB's strategic investment, in partnership with housing, in supported accommodation for people with complex needs;
- The number of looked after children accommodated with three or more moves has reduced from 145 in 2018/19 to 137 in 2019/20. As above, through the transformation change programme, there is reduced need for children outwith authority placements and intensive support provided to childrens and families; and
- Percentage of reports to the Scottish Children's Reporter and percentage of child protection re-registrations performance has declined in 2019/20 and are areas of focus for 2020/21. Sickness absence has also seen an increase in the year.

# Value for money (continued)

## Performance data (continued)

As noted on page 30, the HSCP developed a mobilisation plan detailing additional activities to support its response to COVID-19. Initial planning focused on managing the flow to acute settings and the development of COVID-19 testing facility at the Lister Centre at Crosshouse Hospital. Alongside the testing facility, a COVID-19 Hub was established to triage calls from NHS 24/ 111.

Some of the key operational actions included:

- Access Personal Protective Equipment;
- Continuing to deliver care at home;
- Maintaining and supporting vulnerable families;
- Managing early release of prisoners;
- Maintaining mental health services;
- Reporting and co-ordinating of Shielding returns, as well as supporting those who are shielding with food, medication and with their mental wellbeing;
- Financial inclusion and business support; and
- Ayrshire Urgent Care Centre provides pan Ayrshire out of hours cover and has been aligned to the COVID hub.

**2019/20 Conclusion:** A clear process is in place to aim to address areas of low performance, with Service Improvement Plans updated annually. We do, however, recognise that resources are currently focused on managing the impact of COVID-19, therefore this will need to be taken into account in assessing any revised performance targets as the IJB moves into the recovery phase.

## Deloitte view – Value for money

The IJB continues to have an embedded performance management culture supported by its performance management systems which analyse data, track progress and identify actions. In addition, there is regular performance information which is provided to Committee, IJB members, operational managers and is publicly reported.

Performance data has shown some areas of improved performance with other areas still representing a challenge. Prior to the COVID-19 pandemic, a clear process was in place to aim to address areas of low performance. We do, however, recognise that resources are currently focused on managing the impact of COVID-19.

# Best value

It is the duty of the IJB to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

## Duty to secure best value

1. It is the duty of the IJB to make arrangements which secure best value.
2. Best value is continuous improvement in the performance of the IJB's functions.
3. In securing best value, the IJB shall maintain an appropriate balance among:
  - a) The quality of its performance of its functions;
  - b) The cost to the IJB of that performance; and
  - c) The cost to persons of any service provided by the IJB for them on a wholly or partly rechargeable basis.
4. In maintaining that balance, the IJB shall have regard to:
  - a) Efficiency;
  - b) Effectiveness;
  - c) Economy; and
  - d) The need to make the equal opportunity requirements.
5. The IJB shall discharge its duties in a way that contributes to the achievement of sustainable development.
6. In measuring the improvement of the performance of an IJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

## BV arrangements

The IJB has a number of arrangements in place to secure best value. This is evidenced through the Strategic Plan and the Annual Performance Reporting.

As noted elsewhere within this report, the IJB has an established governance framework and strong leadership and partnership working. There is a culture of continuous improvement, which was highlighted as part of the East Ayrshire Council Best Value Assurance Report published in May 2018.

A Service Review Programme was agreed by the Audit and Performance Committee in March 2020 as part of the IJBs focus of striving for continuous improvement. The Service Review Programme for 2019-2022 encompasses three cost cutting reviews related to transport, prevention and early intervention and digital transformation in health and social care.

The IJB recognises that it must deliver services within the financial resources available and, as noted elsewhere in this report, further work is required to achieve medium to longer term financial sustainability.

## Deloitte view – best value

The IJB has sufficient arrangements in place to secure best value with a strong focus on continuous improvement. It has a clear understanding of areas which require further development.



# Sector developments



# Sector developments

## Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

### An emerging legacy

#### How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

### Seven emerging legacies:

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

# Sector developments (continued)

## Responding to COVID-19 (continued)

### COVID-19: Lockdown exit and recovery

Whilst many things remain uncertain in the current environment, it is increasingly clear that many organisations are beginning to plan for the easing of the lockdown.

Two documents have been developed to support you in your thinking:

- **Lockdown exit and recovery:** Based on insight from Henry Nicholson, our Chief Strategy Officer and our Economic and Financial Advisory Team, this document provides an overview of economic forecasts to predictions around exit strategies, potential economic impact, plus key considerations to consider in relation to: Supply, Demand, Operations, People and Financing.
- **Exit timelines:** This document provides an overview for each of the major European countries of their current status, key statistics and a reported or illustrative timeline (as relevant) for their exit strategy. It also includes some actions organisations are taking in the workplace to 'return to work' plus advice for management teams.

Copies of these documents can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/financial-advisory/articles/covid19-uk-lockdown-exit-and-recovery.html>

### COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/covid-19-impact-on-the-workforce-insight-for-hr-teams.html>

# Appendices



# Purpose of our report and responsibility statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Audit and Performance Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report;
- Our internal control observations; and
- Other insights we have identified from our audit.

### The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan.

### Use of this report

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

### What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Pat Kenny, CPFA**

**For and on behalf of Deloitte LLP**

Glasgow | 19 August 2020

# Action plan

## Follow-up 2018/19 action plan

We have followed up the recommendations made in our previous year reports and are pleased to note that 4 of the total 6 recommendations made have been fully implemented. We will continue to monitor the following that have not been fully implemented as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Scottish Government Medium Term Financial Strategy</i>	The planned update to the Board's Medium Term Financial Plan should take account of the financial implications of the Scottish Government five-year Medium Term Financial Strategy.	The update of the Medium Term Financial Plan during 2019/20 will take account of financial implications/ methodology included in the Scottish Governments MTFS where appropriate.	Chief Officer, Chief Finance Officer, Senior Manager – Finance/ Senior Manager – Planning and Performance	31/12/2019	Medium	<p><b>Partially implemented:</b> the IJB should prioritise creating an MTFP in 2021. This should take into account the Scottish Government Health and Social Care Medium Term Financial Framework, as well as the additional risks such as EU Exit and Covid-19, as well as the transformation agenda (page 24).</p> <p><b>Updated management response:</b> An update to the MTFP projections was provided as part of the budget setting report for 2020/21. A full review and update will be undertaken during 2020/21, aligned to the review of the Strategic Plan, and used to inform future budget setting exercises.</p> <p><b>Updated target date:</b> 31/03/21</p>

# Action plan (continued)

## Follow-up 2018/19 action plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Budgeting process	<p>We recommended the following improvements to the budget setting process:</p> <ul style="list-style-type: none"> <li>• There needs to be a link between the budgeted spend and the IJB's priorities as set out in the Strategic Commissioning Plan.</li> <li>• There needs to be improved links between the budget and outcomes: there is no information of the outcomes the IJB expects to be progressed (and to what extent) by the budget, which makes it difficult for the IJB to assess to what extent budgetary decisions are impacting on outcomes achieved.</li> </ul>	<p>Work will be undertaken to improve the links between strategic planning and budgeting as part of the budget setting process for 2020/21. This will be considered as part of the update of the Medium Term Financial Plan during 2019/20.</p>	<p>Chief Officer/ Chief Finance Officer/ Senior Manager- Finance/ Senior Manager – Planning and Performance</p>	31/03/2020	Medium	<p><b>Partially implemented:</b> There are Service Improvement Plans which support the Strategic Plan 2018-21, and which are also a key mechanism for setting out service level contributions to the delivery of the Health and Social Care Partnership's objectives as they contribute to the Wellbeing theme of the Community Plan 2015-30, being East Ayrshire's sovereign plan.</p> <p>However, it is still not easy to tell how these Service Improvement Plans then feed into the budgeting process and enable tracking on actuals versus budget and how this translates into outcomes.</p> <p><b>Updated management response:</b> The budget-setting process includes input from members of the Strategic Planning Group. The continued focus on prevention, early intervention and hospital discharge initiatives is evidenced in positive outcomes in relation to management of increasing demand and delayed discharge performance (for example). Further work will be undertaken as part of the update of the MTFP / Strategic Plan in 2021 to refine links between budgets / activity and outcomes.</p> <p><b>Updated target date:</b> 31/03/21</p>

# Our other responsibilities explained

## Fraud responsibilities and representations



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in relation to completeness and accuracy of income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Performance and Audit Committee on the process for identifying, evaluating and managing the system of internal financial control.

### Concerns:

No issues to report.





# Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

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**Independence confirmation** We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and our objectivity is not compromised.

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**Fees** The audit fee for 2019/20, in line with the expected fee range provided by Audit Scotland, is £26,560, as analysed below:

	£
Auditor remuneration	18,300
Audit Scotland fixed charges:	
Pooled costs	1,790
Contribution to PABV	5,360
Audit support costs	1,110
<b>Total fee</b>	<b>26,560</b>

No non-audit services fees have been charged for the period.

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**Non-audit services** In our opinion there are no inconsistencies between the FRC's Ethical Standard and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

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**Relationships** We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

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# Quality of public audit in Scotland

## Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

### Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

### Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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