



# East Ayrshire Integration Joint Board

Report to the Audit and Performance Committee, Members of the Integration Joint Board and the Controller of Audit on the 2021/22 audit

Issued on 10<sup>th</sup> August 2022 for the meeting on 17<sup>th</sup> August 2022

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# 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 Annual Report and Accounts.
- 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 report to the Audit and Performance Committee (“the Committee”) of the East Ayrshire Integration Joint Board (“the IJB” “the Board”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Committee in March 2022.

This report summarises our findings and conclusions in relation to:

- The audit of the **annual report and accounts**; 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 annual accounts and our knowledge of the Board. However, we did note that the Annual Accounts are particularly long. Overall, there are areas of information in the Annual Accounts which could be cut down in future years to avoid unnecessary narrative.

The auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

A summary of our work on the significant risks is provided in the dashboard on page 9.

### Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Review of Board and Committee minutes up to signing;
- Receipt of final annual accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2022.

### Conclusions on audit dimensions and best value

As set out on page 3, our audit work covered the four audit dimensions. Our separate detailed report presented to the Committee in June 2022 set out our findings and conclusions on each dimension. In accordance with the Code of Audit Practice, we have included our overall conclusions within this report on page 17. Key highlights include:

**Financial Management** - The IJB continues to have effective budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

**Financial sustainability** - The IJB has set a balanced budget for 2022/23 therefore is financially sustainable in the short term. However, it continues to be faced with significant financial challenges over the medium and longer-term.

It is positive to see that specific focus has been given to prevention and early intervention as part of the budget setting process. The programme of transformation change is also progressing, with specific resource allocated in line with good practice. Progress continues to be impacted by the ongoing response to the COVID-19 pandemic.

Significant work is still required to make the level of lasting long-term transformational change needed to ensure financial sustainability.

# Introduction (continued)

## The key messages in this report (continued)

### Conclusions on audit dimensions and best value (continued)

**Governance and transparency** – The IJB continues to have strong leadership, with more tailored training being developed for Board members. The governance arrangements also continue to be robust and the IJB continues to be open and transparent, with clear focus on driving forward participation and engagement. In line with our previous years recommendation, this could be further enhanced through live streaming of Board meetings.

Further work is required to progress with implementing delegated hospital budgets and set aside requirements, in collaboration with the Scottish Government, NHS Ayrshire and Arran and other Ayrshire partnerships.

**Value for money** — The IJB continues to have a comprehensive performance management framework in place which analyses data, tracks progress and identifies actions, with a clear focus on service improvement, however, there remains gaps in data. Challenges remain in responding to the pandemic. Regular reporting on performance is provided to the Audit and Performance Committee and the IJB.

**Best value** - The IJB has sufficient arrangements in place to secure best value and has a clear understanding of areas which require further development.

### Added value

Our aim is to add value to the IJB 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 IJB promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout both this report and our separate 'Audit Dimensions and Best Value' report.

We also included our “sector developments” within our separate report where we shared Audit Scotland’s national reporting and our research and informed perspective and best practice from our work across the wider public sector that are specifically relevant to the IJB.

### Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Board, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Board, management and staff for the good working relationship over the period of our appointment.

**Pat Kenny**  
Associate Partner
























# Annual Report and Accounts Audit



# Quality Indicators

## Impact on the execution of our audit

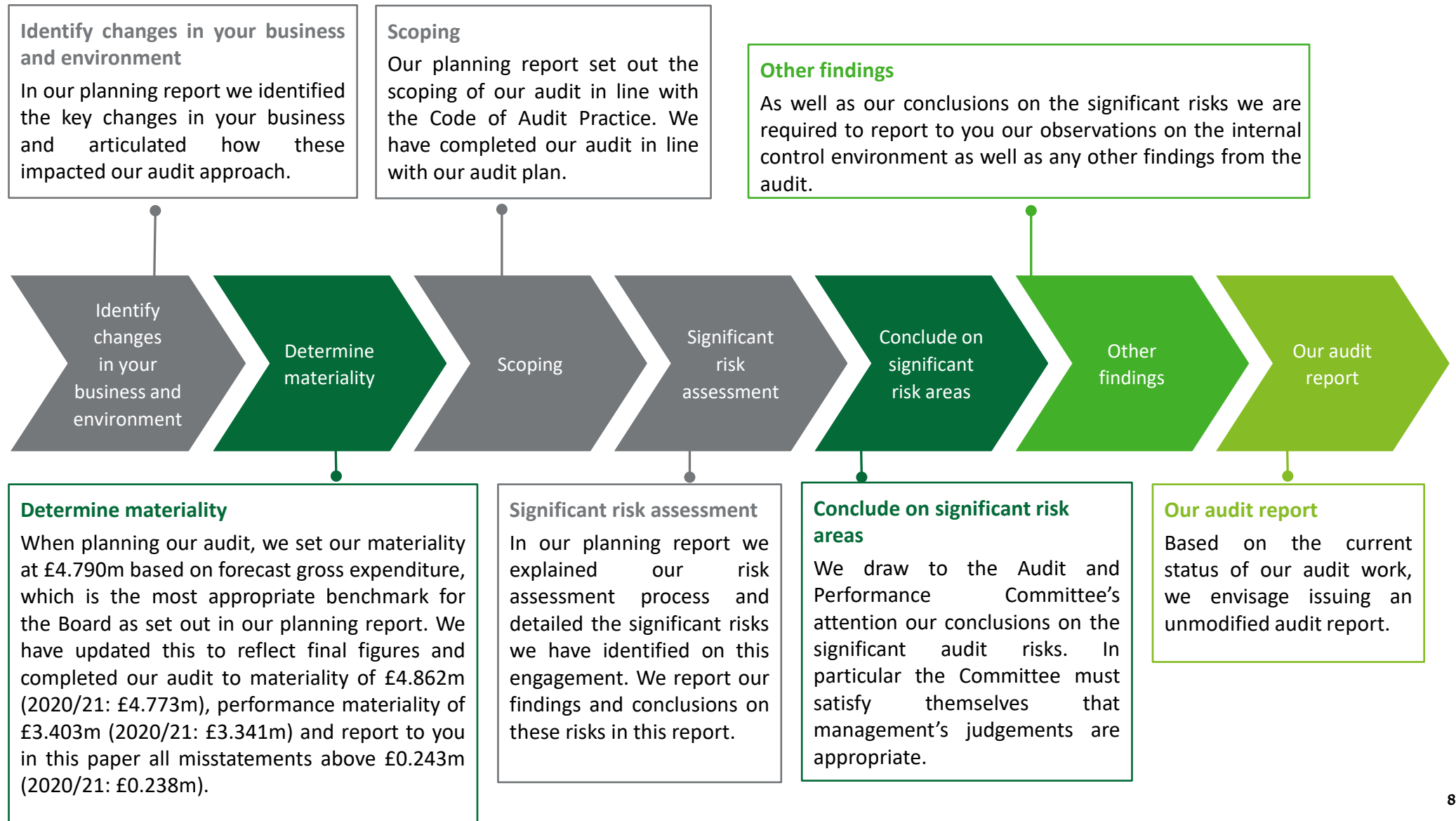
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to 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
	FY22	FY21	FY20	
Timing of key accounting judgements				There were no significant accounting judgements included within the IJB Annual Accounts. This is in line with our expectations and understanding of the IJB.
Adherence to deliverables timetable				Management provided all evidence in a timely manner, in advance of agreed timelines. Any follow-up requests during the audit were quickly actioned. This is an improvement from the prior year audit.
Access to finance team and other key personnel				Deloitte and the IJB Finance Team have worked together to facilitate remote communication during the audit which has been successful. There have been no issues with access to the finance team or other key personnel.
Quality and accuracy of management accounting papers				Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Report and Accounts. This is borne out by the resubmission rate on requests for the audit being low, at 2%.
Quality of draft financial statements				A full draft of the Annual Report and Accounts was received for audit on 15 June 2022. We identified 29 required changes and 17 recommended changes.
Response to control deficiencies identified				We identified one control deficiency based on NHS Ayrshire and Arran's controls which impact the IJB. Please see page 12 for further details.
Volume and magnitude of identified errors				We have not identified any errors above the reporting threshold.

 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	10
Management override of controls			D+I	See page 12		Satisfactory	11

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)

## Completeness and accuracy of income



### Risk identified and key judgements

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 Board are contributions from its funding partners, namely East Ayrshire Council and NHS Ayrshire and Arran. 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. Whilst the Board was projecting a year-end underspend against budget in relation to directly managed services, there remains a risk associated with the additional COVID-19 expenditure and associated funding.



### Deloitte response and challenge

We have performed the following:

- assessed the design and implementation of the controls around recognition of income;
- tested the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process;
- tested the reconciliations performed by the Board at 31 March 2022 to confirm all income is correctly recorded in the ledger; and
- confirmed that the reconciliations performed during 2021/22 have been reviewed on a regular basis.

### 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)

## Management override of controls



### Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.



### Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

#### Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

### Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.

In performing this review, we have not identified any significant accounting estimates and judgements from our testing.

### 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.

### Deloitte view

We have not identified any significant bias in the key judgements made by management.


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

We have identified a control deficiency in relation to NHS Ayrshire and Arran's segregation of duties. Further insight can be seen on pg. 12.

# Other Significant Findings

## Internal control

During the course of our audit we have identified one internal control finding, which we have included below for information.

Area	Observation	Priority
Monthly Journal Reviews	<p>Each month within NHS Ayrshire and Arran, senior accountants receive a listing of all journals posted by accountants, in their division, for review. The aim of this is to follow up on unusual variances and discrepancies which should mitigate against override.</p> <p>Based on a walk through of this control from September 2021, there is no evidence that the reviewer carried out a detailed review as they did not include commentary accompanying the journal listing to demonstrate a robust review.</p> <p>We therefore recommend that management review the adequacy of this control and either enhance the documentation of the review to clearly set out what has been reviewed or identify an alternative control to review journal entries to ensure there is sufficient segregation of duties.</p> <p>We understand that this deficiency is within the control of NHS Ayrshire and Arran. This has been communicated to NHS Ayrshire and Arran as part of their Audit Report. Although, given that the IJB is a partner of NHS Ayrshire and Arran, it is appropriate to include this finding for completeness as it does impact the Board.</p>	

The purpose of the audit was for us to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.

Low Priority

Medium Priority

High Priority

# Other Significant Findings

## Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

### Qualitative aspects of your accounting practices:

The Board has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Board's accounting practices are appropriate.

### 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. Management have made relevant disclosures in relation to this impact in the annual accounts.

The impact of Russia's invasion on Ukraine was also discussed with management. However, there has been no impact of this on the IJB.

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

# 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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.



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

There are no matters we judge to be of fundamental importance in the Annual Accounts 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 narrative parts of the Annual Accounts is reviewed in its entirety for material consistency with the annual accounts 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 as discussed further on page 15.



# Your Annual Report

We are required to provide an opinion on the auditable parts of the Remuneration Report, the Annual Governance Statement and whether the Management Commentary is 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>We are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading. However, we did note that the Annual Accounts are particularly long. Overall, there are areas of information in the Annual Accounts which could be cut down in future years to avoid unnecessary narrative.</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 and the Chief Finance Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages. 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 Delivering Good Governance in Local Government Framework. Based on our review of the Annual Accounts, we conclude that they are prepared in accordance with the Annual Governance Statement and only minor amendments were requested to management.

# Audit Dimensions and Best Value



# Audit Dimensions and Best Value

## Overview and conclusions

As set out in our audit plan and separate report on the “Audit Dimensions and Best Value” presented to the Committee in June 2022, public audit in Scotland is wider in scope than financial audits. Our separate report sets out our findings and conclusions on our audit work covering the areas set out below. In accordance with the Code of Audit Practice, our overall conclusions on each audit dimension and best value are summarised below.

### Financial management

The IJB continues to have effective budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

### Financial sustainability

The IJB has set a balanced budget for 2022/23 therefore is financially sustainable in the short term, however, its level of uncommitted reserves are 0.8% compared to its aspirational 2% level set within its Reserves Strategy. The IJB continues to be faced with significant financial challenges over the medium and longer-term, projecting a high level funding gap of up to £28.9m over the next eight years. A more comprehensive MTFP is expected later in 2022.

It is positive to see that specific focus has been given to prevention and early intervention as part of the budget setting process. The programme of transformation change is also progressing, with specific resource allocated in line with good practice. Progress continues to be impacted by the ongoing response to the pandemic. Significant earmarked reserves are projected to be carried forward into future years. It is critical that detailed plans are developed to demonstrate how these funds will be used to make transformational change

Significant work is still required to make the level of lasting long-term transformational change needed to ensure financial sustainability. It is important that tools are developed to track the benefits achieved from the transformational change to demonstrate that it is achieving the desired outcomes.

### Governance and transparency

The IJB continues to have strong leadership, with more tailored training being developed for Board members. The governance arrangements also continue to be robust and the IJB continues to be open and transparent, with clear focus on driving forward participation and engagement. In line with our previous year recommendation, this could be further enhanced through live or on demand streaming of Board meetings.

Further work is required to progress with implementing delegated hospital budgets and set aside requirements, in collaboration with the Scottish Government, NHS Ayrshire and Arran and other Ayrshire partnerships.

### Value for money

The IJB continues to have a comprehensive performance management framework in place which analyses data, tracks progress and identifies actions, with a clear focus on service improvement, however, there remains gaps in data. Challenges remain in responding to the pandemic. Regular reporting on performance is provided to the Audit and Performance Committee and the IJB.

### Deloitte view – Best Value

The IJB has sufficient arrangements in place to secure best value and has a clear understanding of areas which require further development.

# 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 and Accounts;
- 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 annual accounts.

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 Audit and Performance Committee.

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 | 10th August 2022



# Appendices



# Audit Adjustments

## Disclosures and misstatements

### **Audit misstatements**

As at the date of this report we have not identified any audit misstatements, corrected or uncorrected.

### **Disclosure misstatements**

As at the date of this report we have not identified any disclosure misstatements, corrected or uncorrected.



# 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 auditor, 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and that affects the entity.

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 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.

# 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 2021/22, in line with the expected fee range provided by Audit Scotland, is £27,960, as analysed below:

	2021/22	2020/21
	£	£
Auditor remuneration	19,250	18,850
Audit Scotland fixed charges:		
Pooled costs	2,010	1,790
Contribution to PABV	5,670	5,650
Audit support costs	1,030	1,040
<b>Total fee</b>	<b>27,960</b>	<b>27,330</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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