



# East Ayrshire Health and Social Care Partnership

2015/16 Annual Audit  
Report for members of  
East Ayrshire Integration  
Joint Board and the  
Controller of Audit

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Fiona Mitchell-Knight, Assistant Director, Audit Scotland is the Engagement Lead for East Ayrshire Health and Social Care Partnership for the 2015/16 year.

This report has been prepared for the use of East Ayrshire Health and Social Care Partnership and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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# Key messages

## Audit of financial statements

- This is the first year that the partnership has operated, and published its accounts.
- We have issued an unqualified independent auditor's report on the 2015/16 financial statements. They have been prepared in accordance with accounting regulations and guidance.
- The accounts were prepared in May, this facilitated consolidation of figures into the health board's accounts in June.

## Financial management & sustainability

- The partnership spent £203 million on delivering health and social care services for the residents of East Ayrshire.
- The Board has introduced effective financial management arrangements and the financial position is sustainable but challenging.
- Regular budgetary control reports are provided to the Board and to the partner bodies.
- There was an underspend of £0.458 million in 2015/16 against budget. This consisted of £0.442million for services provided by East Ayrshire Council and; and £0.016 million for services provided by NHS Ayrshire and Arran.
- The Board had to set its 2016/17 budget in advance of confirmation of the health board's settlement. Any significant change to this could impact the level of service provided by the Board.

## Governance & transparency

- Effective governance arrangements are in place.
- We obtained audit assurance over the accuracy and completeness of financial transactions processed by the partner bodies.
- Internal audit services provided to the Board comply with Public Sector Internal Audit Standards. A protocol should be in place which ensures all internal audit work and subsequent reports are considered by and approved by the IJB.
- The Board could make more information about how it operates publicly available.

## Best Value

- The Board was one of the first established in Scotland, and has shown a very high level of commitment to the integration agenda.
- The three Ayrshire IJBs' lead partner service model is an innovative approach.
- The Strategic Planning Group membership has been expanded to widen participation of partners and stakeholders who are instrumental in developing the strategic plan.
- The strategic plan outlines the partnership's aims, visions and priorities for 2015-2018. The first annual review re-affirmed the priorities and programmes outlined in the strategic plan. This is supported by service improvement plans for 2016/17.
- An annual performance report will be published soon; quarterly reports for the Audit and Performance Committee are planned.

## Outlook

- Whilst the Board's commitment to providing better preventative and community based care is encouraging, it is too early to judge its impact. The Board will need to demonstrate its evolving approach is making a positive impact on users and outcome measures
- The Board will need to operate in a period of austerity with reduced funding in real terms, increasing cost pressures and a growing demand for services. Developing and implementing workforce strategies which enable the redesign of health and care services to meet future needs will be challenging. This is heightened by current difficulties in recruiting and retaining staff.

# Introduction

1. In October 2015 the Accounts Commission approved the appointment of Audit Scotland's Audit Services Group as external auditors of East Ayrshire Integration Joint Board (the "Board"). Our audit appointment is for one year, covering the 2015/16 financial year. This is the first period for which the Board has prepared financial statements for the health and social care partnership.
2. This report is a summary of our findings arising from the 2015/16 audit. The report is divided into sections which reflect our public sector audit model.
3. The management of the Board is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
4. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
5. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility to prepare financial statements which give a true and fair view.
6. [Appendix I](#) lists the audit risks that we identified in the annual audit plan we issued in March 2016. It also summarises the assurances provided by management to demonstrate that risks are being addressed and the conclusions of our audit work. [Appendix II](#) lists the reports we issued to the Board during the year. A number of national reports have been issued by Audit Scotland during the course of the year. These reports, summarised at [Appendix III](#), include recommendations for improvements.
7. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers considered the issues and agreed to take steps to address them. The Board should ensure it has a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2015/16 financial statements

<p><b>Audit opinion</b></p>	<ul style="list-style-type: none"> <li>• We have completed our audit and issued an unqualified independent auditor’s report.</li> </ul>
<p><b>Going concern</b></p>	<ul style="list-style-type: none"> <li>• The financial statements were prepared on the going concern basis.</li> <li>• There is increased financial risk for the Board which had to set its 2016/17 budget in advance of NHS Ayrshire &amp; Arran approving its budget. However we do not feel this or any other events or conditions cast significant doubt on the Board’s ability to continue as a going concern.</li> </ul>
<p><b>Other information</b></p>	<ul style="list-style-type: none"> <li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of this information.</li> </ul>

## Submission of financial statements for audit

10. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards (IJBs) should be treated as if they were bodies falling within section 106 of the Local Government (Scotland) Act 1973. The financial statements of the Board are prepared in accordance with the 1973 Act and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
11. The IJB put arrangements in place to provide information to its partners for their group accounts, per an agreed timetable. This was particularly important for NHS Ayrshire and Arran which is required to submit audited accounts by 30 June. This included details of balances held at the year-end, the transactions in the year and other information including assurances needed for the governance statements.
12. We received the unaudited financial statements of the Board on 26 May 2016, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit by the deadline.

## Overview of the scope of the audit of the financial statements

13. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Performance Committee on 10 May.

14. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
15. The concept of audit risk is central to our audit approach. We focus on those areas that are most at risk of causing material misstatement in the financial statements. In addition, we consider what risks are present in respect of our wider responsibility, as public sector auditors, under Audit Scotland's Code of Audit Practice.
16. During the planning phase of our audit we identified a number of risks and reported these to you in our Annual Audit Plan along with the work we proposed doing in order to obtain appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified and how we addressed each risk.
17. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial

statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of East Ayrshire Integration Joint Board we set our planning materiality for 2015/16 at £2.123 million (or 1% of budgeted expenditure). Performance materiality was calculated at £1.274 million, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level. Additionally, we set a misstatement threshold of £0.020 million (approximately 1% of planning materiality) for reporting errors. Our annual audit plan highlighted that we would report all misstatements greater than £0.020 million.
21. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels, and concluded that our original calculations remained appropriate.

## Evaluation of misstatements

22. The audit identified some minor presentational items in the unaudited accounts which were discussed and agreed with

management. There was one misstatement of £0.155 million which is explained in table 1. This has been adjusted and results in the audited accounts reporting a surplus of £0.442 million.

## Significant findings from the audit

23. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment are significant to the oversight of the financial reporting process.
24. There are no matters other than those set out in this report that we want to bring to your attention. Table 1 below details issues from the audit of the financial statements that, in our view require to be communicated to those charged with governance in accordance with ISA 260.
25. The financial statements have been compiled in accordance with regulations and we have issued an unqualified independent auditor's report. The annual accounts show the results of the IJB's transactions, but do not reflect the way that services have been

organised across Ayrshire lead service partners. However, the Management Commentary, and monitoring information provided to Board members reflects this. The impact of these changes is discussed further in table 2. This limits the ability of readers of the accounts to link audited IJB cost information to other service

performance measures published by the partnership. This will be increasingly the case across Scotland as IJBs change the way that services are delivered.

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**Table 1: Significant findings from the audit**

**Significant findings from the audit in accordance with ISA260**

**Aids and Adaptations Expenditure**

The unaudited accounts disclosed a surplus of £0.287 million. This incorporated commitments for aids and adaptations work valued at £0.155 million that had not been carried out at the year end. An accounting adjustment has been made to the audited accounts to remove this from 2015/16 expenditure. This results in the surplus and usable reserves balance being adjusted to £0.442 million. This aids and adaptations work will be carried out in 2016/17 and is funded from the reserves balance carried forward.

*Resolution:* The audited accounts have been updated to reflect this.

**Set Aside Costs**

The accounts include £19.359 million set aside costs for hospital acute services. The budget and expenditure reported for the set aside is equal and based on the historic use of acute services in the area. The figures are provided by NHS Ayrshire & Arran. Partners agreed that this would be managed by NHS Ayrshire & Arran with no in year financial consequences on the partnership. The set aside is excluded from the financial monitoring information used by the IJB to monitor performance, see table 2.

*Resolution:* The income and expenditure account in the annual accounts correctly incorporate the set aside costs of £19.359 million. The set aside budget will be reviewed annually as part of the Strategic Plan and should reflect any redesign of services. No further action required.



## Future accounting and auditing developments

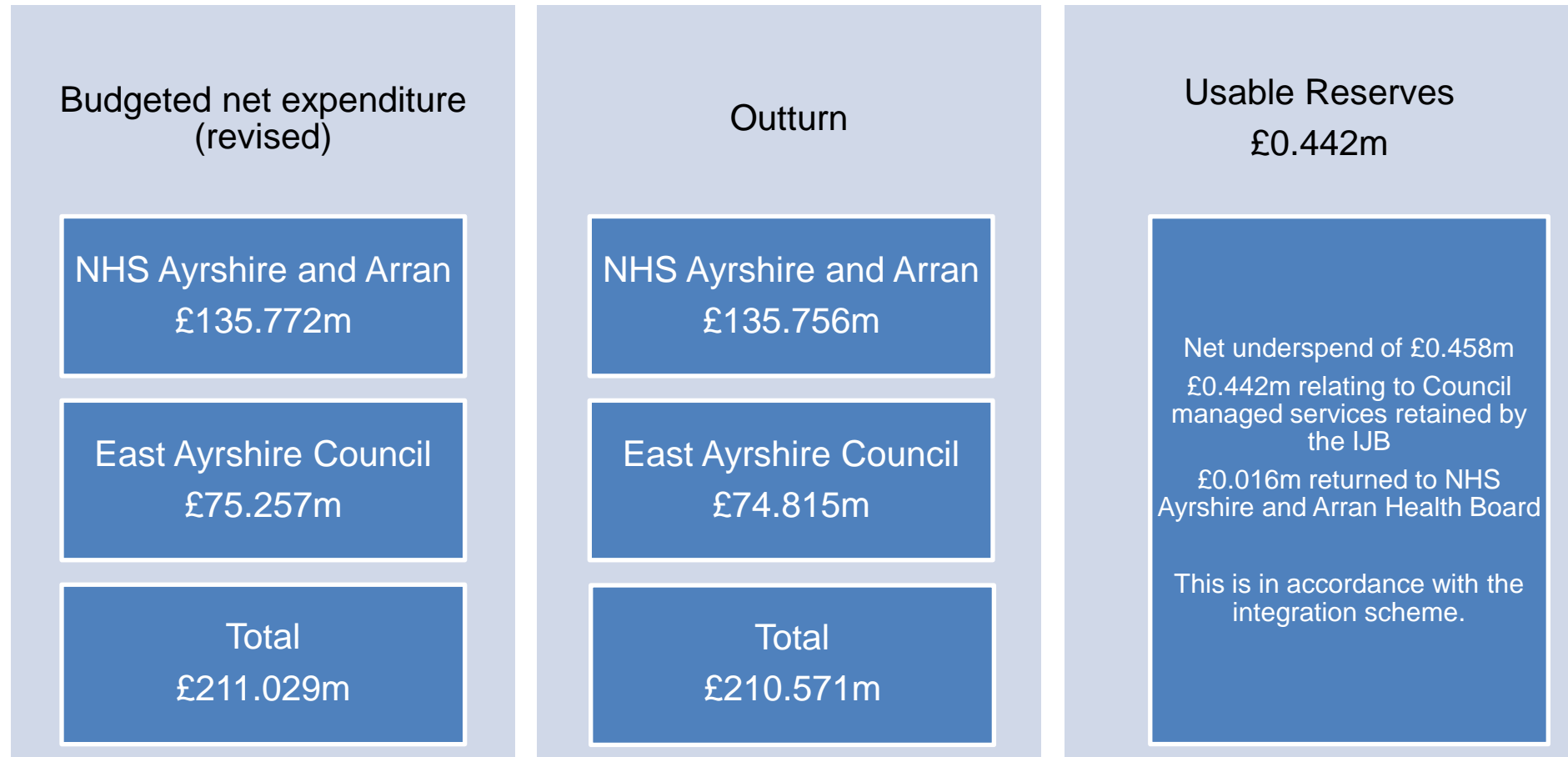
### Audit appointment from 2016/17

26. The Accounts Commission is responsible for the appointment of external auditors to integration joint boards. Paragraph 1 referred to Audit Scotland's one year appointment as the auditor of East Ayrshire Integration Joint Board in 2015/16. This was restricted to one year to reflect the final year of our five year appointment as auditors of NHS Ayrshire and Arran and East Ayrshire Council. External auditors are appointed for a five year term either from Audit Scotland's Audit Services Group or private firms of accountants.
27. The procurement process for the new round of audit appointments was completed in March 2016. From next year (2016/17) Deloitte LLP will be the appointed auditor for East Ayrshire Independent Joint Board.

## Code of Audit Practice

28. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors.
29. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all annual audit reports, annual audit plans and other significant audit outputs will be put on the website for all audited bodies. This is irrespective of whether the body meets in public or makes documents available to the public.

# Financial management and sustainability



The figures above represent the net costs of partnership services managed by East Ayrshire IJB. They include £27.123 million of net partnership income, for services delivered on behalf of North and South Ayrshire, not reflected in the IJB Statement of Income and Expenditure Account. They exclude the acute services set aside of £19.359 million discussed in Table 1.

## Financial management

30. In this section we comment on the East Ayrshire Integration Joint Board financial performance and assess the Board's financial management arrangements.
31. The Board does not have any assets, nor does it directly incur expenditure or employ staff, other than the Chief Officer. All funding and expenditure for the Board is processed in the stakeholders' accounting records. Satisfactory arrangements are in place to identify this income and expenditure and report this financial information to the Board.
32. Lead partnership responsibilities are specified in the integration schemes for each of the three Ayrshire joint boards. These each specify that the lead board is responsible for the operational management and performance of those lead partnership services. Budget monitoring reports for the Board therefore include £46.573 million funding and expenditure for services which the Board lead on behalf of North and South Ayrshire IJBs. Conversely, budget monitoring reports exclude £19.450 million of funding and expenditure provided to the Board for services that are lead by either North or South Ayrshire IJBs. This nets to £27.123 million and is appropriately adjusted within the annual accounts.
33. The integration scheme between NHS Ayrshire and Arran and East Ayrshire Council sets out the amount to be paid by the parties to East Ayrshire Integration Joint Board. Delegated baseline budgets for 2015/16 were subject to due diligence and comparison to actual expenditure in previous years.

34. Legislation empowers the Board to hold reserves. The integration scheme and the reserves strategy set out the arrangements between the partners for addressing and financing any overspends or underspends. It highlights that underspends in an element of the operational budget arising from specific management action may be retained by the IJB to either fund additional in year capacity, or be carried forward to fund capacity in future years of the Strategic Plan. Alternatively, these can be returned to the partner bodies in the event of a windfall saving.
35. Where there is a forecast overspend the partner bodies must agree a recovery plan to balance the budget.

## Financial performance 2015/16

36. The IJB set a breakeven budget for 2015/16. This was based on expenditure of £205.767 million to deliver partnership services: with £134.135 million contributed from NHS Ayrshire and Arran; and £71.632 million contributed by East Ayrshire Council. The budget incorporated approved efficiency savings of £2.043 million for East Ayrshire Council and savings of £0.675 million for NHS Ayrshire & Arran. Progress against these targets was reported quarterly to the Board and to the partner bodies.
37. The budget was increased by £5.262 million during the year to £211.029 million. The majority of the increase in the expenditure budget related to £1.900 million for delegated functions that were not included in the original due diligence budget agreement, and £1.861 million brought forward from earmarked balances held by East Ayrshire Council at 31 March 2015. Other increases to the

budget included £0.845 million for vaccinations, which was not included in the original due diligence agreement, and £0.244 million allocated to the NHS from the Scottish Government, which was to be passed on directly to local authorities for increases to low pay in care homes.

38. Actual expenditure of £210.571 million was incurred by the Board in 2015/16, resulting in an underspend of £0.458 million. Of this, £0.442million has been retained by the Board, as illustrated in Table 2

**Table 2: Summary of financial performance**

Partnership budget objective summary	Budget (£m)	Actual (£m)	Variance (£m)
<b>Expenditure</b>			
Level One – Core	114.041	115.025	0.984
Level Two – Non District General Hospitals	3.984	4.279	0.295
Level Three – Lead Partnership Services	69.015	68.746	(0.269)
Level Four – Children’s Services	25.998	24.525	(1.473)
Funded Elements	(2.009)	(2.003)	0.006
<b>Total expenditure</b>	<b>211.029</b>	<b>210.571</b>	<b>(0.458)</b>

Partnership budget objective summary	Budget (£m)	Actual (£m)	Variance (£m)
<b>Funding</b>			
NHS Ayrshire and Arran	135.772	135.756	0.016
East Ayrshire Council	75.257	75.257	0
<b>Total funding</b>	<b>211.029</b>	<b>211.013</b>	<b>0.016</b>
Surplus returned to NHS A&A			0.016
<b>Surplus (from EAC to be retained by the IJB)</b>			<b>(0.442)</b>
Net lead partnership income		(27.123)	
Set aside		19.359	
Services commissioned by IJB		203.249	

Source: East Ayrshire Health and Social Care Partnership Annual Accounts 2015/16

39. East Ayrshire Council approved that the underspend of £0.442 million relating to East Ayrshire Council managed services will be retained by the IJB to meet the cost of relevant future expenditure. This principally relates to delays in aids and adaptations work, leading to underspends on this budget. Management have agreed that this will work will now be done in 2016/17, and the underspend carried forward to do this. The underspend of £0.016 million relating

to NHS Ayrshire and Arran managed services has been returned to the Health Board in accordance with the terms of the first year of the integration scheme.

40. The management commentary in the accounts provides a summary of the reasons for key variances from budget.

### Financial management arrangements

41. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Chief Financial Officer has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the Board
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- Board members provide a good level of challenge and question budget holders on significant variances.

42. The Chief Finance Officer was in post throughout the accounting year, and is responsible for ensuring that appropriate financial services are available to the Board and the Chief Officer.

43. We reviewed the standing financial instructions and standing orders, which were created on the formation of the IJB. These were approved by the Board and we consider these to be comprehensive.

44. Financial monitoring of the partnership budget is reported in an agreed format to the Board, the Audit and Performance Committee, and externally to NHS Ayrshire and Arran and East Ayrshire Council. This is reported within NHS Ayrshire and Arran's monthly Financial Management Reports, and four times a year to the Council within its East Ayrshire Performs Report. The IJB is provided with four finance reports a year.

45. Projections of the year end position are included in the budget monitoring reports. These provide information on any adjustments to the baseline budgets, together with forecast outturn for the year and reasons for variances. Income and expenditure is analysed in accordance with the joint services provided by the partnership. Underspends and overspends are also attributed to the relevant partner body. The Board has responsibility for carrying out detailed scrutiny of the financial and operational performance and ensuring that prompt corrective actions are taken where appropriate.

46. We attend a number of Audit and Performance Committee meetings during the year. These provide a good level of challenge and question budget holders on significant variances and service performance issues.

## Conclusion on financial management

47. We have concluded that the Board has introduced effective financial management arrangements. These support the review and scrutiny of financial performance, the achievement of financial targets, and awareness of any potential overspends.

## Financial sustainability

48. Financial sustainability means that the Board has the capacity to meet its current and future plans. In assessing financial sustainability we are concerned with whether:
- spending is being balanced with income in the short term
  - long-term financial pressures are understood and planned for.

## Financial planning

49. The Board allocates the resources it receives from the Health Board and Local Authority in line with the Strategic Plan. Due diligence was undertaken to consider the sufficiency of the 2015/16 budget provided for the Partnership.
50. Delays to the agreement of the Scottish Government's financial plans meant that the IJB budget for 2016/17 was not formally set at the beginning of the financial year. The council budget was set on 9 March 2016. This provided confirmation around the council element of the Partnership funding for 2016/17. The health board budget was formally approved on 21 June 2016. During the intervening

period the Board set an interim working budget in March, based on assumed funding from the Health Board.

51. This meant that for the first few months of 2016/17 the Board were pursuing its strategic plan activities but were unable to carry out the planned due diligence on its 2016/17 budget. There was therefore uncertainty during this period regarding the extent to which the Board could develop and implement its strategic plan objectives.
52. There are policy and legislative changes that require additional activity to be delivered by the Board e.g. kinship care, social care living wage. The interim budget agreed in March 2016 was therefore £217.030 million, comprising of contributions from the council and health board of £79.312 million and £137.718 million respectively. The final budget is £216.657 million, comprising contributions from the council and health board of £79.312 million and £137.345 million respectively. The council contribution includes the Board's £6.21 million share of the increased investment by the Scottish Government to offset social care demand issues and cost pressures.

## Conclusion on financial sustainability

53. While there were well documented reasons why the Board required to set an interim working budget for 2016/17, there are risks to service delivery when operating without an agreed budget.

### Action Plan No 1

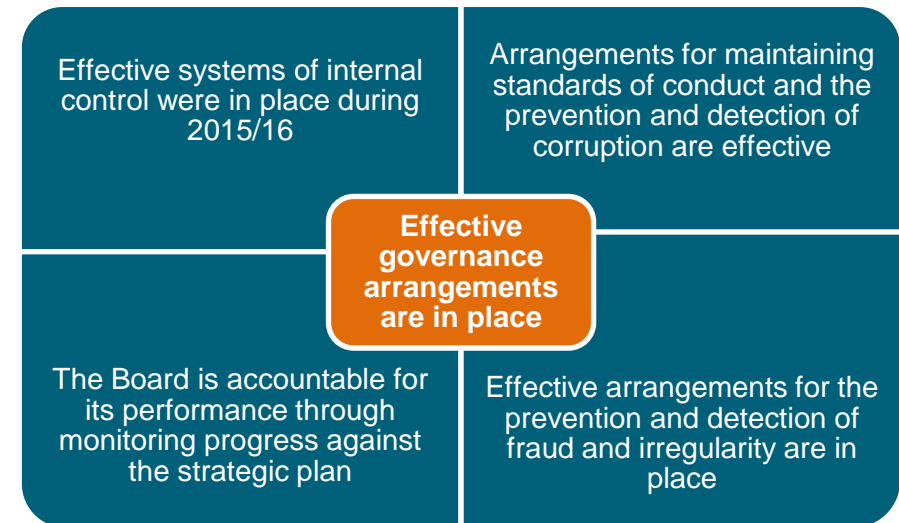
54. Overall we conclude that the Partnership's financial position is sustainable but challenging currently and in the foreseeable future.

Adequate financial planning arrangements are in place and we have also relied on the East Ayrshire Council's and NHS Ayrshire and Arran's track record of delivering efficiency savings.

## Outlook

- 55. NHS boards and councils have faced several years of financial constraints and this is expected to continue in the coming years. The ageing population and increasing numbers of people with long term conditions and complex needs have already placed significant pressure on health and social care budgets. This puts further pressure on finances.
- 56. Strategic plans, while setting out the broad direction, will need to be clear regarding the Board's priorities and the financing and staff that will be available over the longer term to match these priorities. It is important that they provide detail on the level of resources required in each key area and how they will shift resources towards preventative and community based care.
- 57. The Board's strategic plan takes into account the current planned efficiency assumptions. Efficiency requirements are for a minimum of 3% year on year and reflect national expectations for the NHS in Scotland. The Board will therefore need to identify, and achieve, efficiency savings to ensure that a funding gap does not arise.
- 58. Service improvement plans are in place which are designed to provide a framework for measuring progress against planned efficiencies.

# Governance and transparency

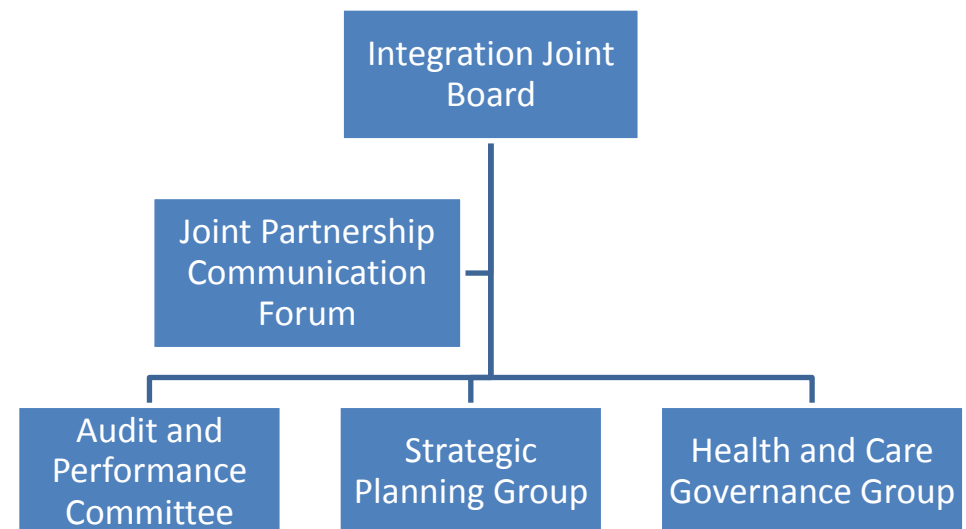


- 59. Good governance is vital to ensure that public bodies perform effectively. This can be a particular challenge in partnerships, with board members drawn from a wide range of backgrounds.
- 60. The integration scheme between East Ayrshire Council and NHS Ayrshire and Arran sets out the key governance arrangements. It also sets out the requirement to identify and collate a core set of indicators and measures which relate to integrated functions to enable the reporting of performance targets and improvement measures.

- 61. The Board are responsible for establishing arrangements for ensuring the proper conduct of the affairs of East Ayrshire Integration Joint Board and for monitoring the adequacy of these arrangements.
- 62. The Board comprises a wide range of service users and partners including four elected councillors nominated by East Ayrshire Council and four non executive directors nominated by NHS Ayrshire and Arran.
- 63. The Board is supported by a Chief Officer who provides overall strategic and operational advice to the Integration Joint Board, and is directly accountable to the Board for all of its responsibilities. The Chief Officer is also accountable to both the Chief Executive of East Ayrshire Council and the Chief Executive of NHS Ayrshire and Arran. The Chief Officer also provides regular reports to both the Council and the NHS Board.
- 64. The Operational structure is divided into three services: Community Health and Care; Children’s Health, Care and Justices Services; and Primary Care and Out of Hours Community Response. Lead partnership services, such as primary care, have been identified which are more specialist in nature or there may be professional or clinical reasons not to split them. The integration scheme requires the Chief Officer to provide regular updates on the operational delivery of services which they lead to the other IJBs. We consider the Board’s financial management arrangements provide relevant information on lead partnership services to enable this.

- 65. The Board is responsible for the management and delivery of health and social care services in East Ayrshire, and is supported by a number of groups as illustrated at [Exhibit 1](#).
- 66. The Board and each of the groups met on a regular basis throughout the year. We review Board minutes and Audit and Performance Committee minutes to ensure they are fulfilling their responsibilities. We also periodically attend meetings of the Audit and Performance Committee. Additionally, we attend selected Board meetings to observe how they perform.

**Exhibit 1: Committees and Groups at East Ayrshire Integration Joint Board**





67. Standing Orders for the Integration Joint Board were approved when it was established in April 2015. Schemes of Delegation are in place which clarify the functions delegated by East Ayrshire Council and NHS Ayrshire and Arran. These delegate operational management of services to the Chief Officer. We concluded that the Board has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.
  68. A Health and Care Governance Group has been established which will report to the Chief Officer and through him to the Integration Joint Board. The membership reflects the professional groups within the partnership including nursing, medical, social work and primary care colleagues. The IJB has taken the opportunity to ensure that there is involvement from all areas of responsibility and have included GP Practice Managers.
  69. The role of the Health and Care Governance Group is to consider matters relating to Strategic Plan development, governance, risk management, service user feedback and complaints, standards, education, learning, continuous improvement and inspection activity.
  70. We concluded that the Board has appropriate governance arrangements in place and they provide a framework for effective organisational decision making.
- ## Internal control
71. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
  72. All financial transactions of the Board are processed through the financial systems of East Ayrshire Council and NHS Ayrshire and Arran. They are subject to the same controls and scrutiny of the council and health board, including the work performed by internal audit.
  73. There are clear data sharing and security arrangements in place, including a data controller who is responsible for ensuring that relevant staff are able to access appropriate information whenever it is necessary for service provision. This covers access to information such as medical records.
  74. Data controller principles for the IJB have been derived from the 'Ayrshare' principles that have been developed over the last 10 years. This is an information sharing agreement that has been in place between East Ayrshire Council, North Ayrshire Council, South Ayrshire Council and NHS A&A covering child health, education and social work services.
  75. East Ayrshire IJB is keen to ensure only relevant information is shared and accessed by relevant people, and therefore keeping

information secure. Until the structure of service provision has been developed further each party will remain responsible for its element of data security, protection, maintenance, training and technical support.

- 76. We sought and obtained assurances from the external auditor of the council and health board regarding the systems of internal control used to produce the transactions and balances recorded in the Board's annual accounts.
- 77. We also reviewed the Board's budget setting and financial monitoring arrangements. We consider the systems of internal control to be effective.

## Internal audit

- 78. Internal audit provides the Board and Chief Officer with independent assurance on the Board's overall risk management, internal control and corporate governance processes. Internal audit services are provided to the Board by the respective internal auditors at both East Ayrshire Council and NHS Ayrshire and Arran. We carried out a review of the adequacy of the internal audit functions at each of the partner bodies. We concluded that internal audit at each partner body operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.
- 79. The Board's Chief Internal Auditor concluded that reasonable assurance can be placed on the adequacy and effectiveness of the IJB's systems of governance, risk and internal control. This

conclusion was based on the Chief Internal Auditor's audit work carried out at East Ayrshire Council that related to the Board and by reviewing reports issued by the NHS Ayrshire & Arran internal auditor.

- 80. The internal audit service provider for NHS Ayrshire & Arran, PricewaterhouseCoopers (PWC), have recently agreed to a sharing protocol for the reports they issue to NHS Ayrshire & Arran for the delivery of the internal audit plan. However, in 2015/16, there was no mechanism in place for PWC to consult with the Audit & Performance Committee regarding the audit work they planned to carry out regarding the Board, nor was there a protocol for PWC reports to be presented to the Audit & Performance Committee.

**Refer Action Plan no 2**

- 81. As services become more integrated this will present a greater challenge to internal audit to produce audit plans that cover the accounting systems and governance arrangements for all the organisations.

## Arrangements for the prevention and detection of fraud and other irregularities

- 82. Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by one of the partner bodies internal audit sections. Since the Board does not directly employ staff, it has been agreed that investigations will be carried out by the internal audit service of the partner body where any fraud or

irregularity originates. If this relates to NHS Ayrshire and Arran, there are arrangements in place to use the Counter Fraud Services.

83. We concluded that the Board had effective arrangements in place for fraud detection and prevention during 2015/16.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

84. The integration joint board requires that all members must comply with the Standards in Public Life - Code of Conduct for Members of Devolved Public Bodies. A register of interests is in place for members of the IJB and senior officers.
85. Based on our review of the evidence we concluded that the Board has effective arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

## Transparency

86. The Board are committed to ensuring that a wide range of partners including Community Planning Partners, third sector, independent sector and communities have an opportunity to become engaged, involved and are able to contribute to the success of the Partnership. The Strategic Plan and locality planning arrangements enable wider partners to engage in, and support the delivery of the Strategic Plan. The Integration Scheme sets out the requirement for the consultation and engagement of key groups.

87. The Board has set out a clear, service based Strategic Plan, which highlights the aims and objectives of the Board over a three year period. It takes account of the priorities outlined in the 2020 Vision for Health and Social Care, and the commitment within the East Ayrshire Community Plan (2015/2030) to work together to tackle inequalities. The strategic plan is reviewed annually and a performance report is published which highlights the Boards main achievements and progress over the period.
88. In addition to East Ayrshire Council and NHS Ayrshire and Arran representation, the Board includes a number of representatives from health and social care professionals, including GPs, employees, unpaid carers, service users, and the third sector.
89. The Board receives regular financial monitoring reports, which are clear and concise.
90. Local residents should be able to hold the Board to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using its resources.
91. Neither the Board nor the health & social care partnership have their own website. Information about services provided by the Board, or details of the meetings held by the Board can be accessed through the East Ayrshire Council website, where access is also provided for committee papers and minutes of meetings.
92. Members of the public can attend meetings of the Board. A significant amount of the Board's business is transacted through the

audit and performance committee, or through the groups listed at [Exhibit 1](#). Minutes and related papers for the Board and the Strategic Planning Group are available on the council or health board websites, however, the other committee/group papers are not publicly available. The Board should consider enhancing transparency by publishing papers submitted to standing committees and groups. Where papers include confidential information these can be withdrawn or redacted as appropriate.

93. As part of the commitment to openness and transparency the Board should consider whether to set up its own web site or have a dedicated area within the council's and health board's web sites. For example, presently the location of the minutes of the Board appear as though it were a committee of the council. Also, the composition of the Board can only be traced through reviewing Board minutes.
94. The Board demonstrates some areas of transparency. However the amount of information publicly available could be increased.

## Outlook

95. Embedding the IJB's governance arrangements will be an essential element in meeting its future challenges and maintaining accountability. All stakeholders including patients, clinicians, carers, the public, staff, partner bodies and the Scottish Government, benefit from the assurance and confidence a good governance regime brings.
96. The structure of IJBs brings the potential for real or perceived conflicts of interest for board members and senior managers. For

example, there is the risk that efficiency savings achieved by the Board may not be passed on by the partners who, themselves, are under pressure to deliver services with reduced financial resources. This could hamper the Board's ability to make decisions about the changes involved in redesigning services. Members of the public may also be unclear who is ultimately responsible for the quality of care. Going forward partners will need to keep governance arrangements under review to ensure they are effective, particularly when disagreements arise.

# Best Value



97. The Public Bodies (Joint Working) (Scotland) Act 2014 set out a broad framework for creating integration authorities and gave councils and NHS boards a great deal of flexibility to enable them to develop integrated services that are best suited to local circumstances.
98. Integration authorities are required to contribute towards nine national health and wellbeing outcomes. These high level outcomes seek to measure the quality of health and social care services and their impact on, for example, allowing people to live independently and in good health, and reducing health inequalities. This signals an

important shift from measuring internal processes to assessing the impact on people using health and social care services. The Strategic Plan has adopted the nine national wellbeing outcomes, together with the six additional outcomes for children and community justice.

99. East Ayrshire Integration Joint Board was one of the first to be established in Scotland, and has demonstrated a very high level of commitment to the integration agenda throughout. The integration scheme specifies the wide range of functions delegated by the council and the health board to the Board. These include all services previously carried out by the council's social services department, plus a wide range of service previously carried out by the health board. These include all community hospitals, all mental health inpatients services, and primary care. Good progress is being made.
100. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. IJBs need to establish effective arrangements for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account. There is also a need for regular reporting to partner organisations. This is particularly important as most members of East Ayrshire Council and NHS Ayrshire and Arran are not directly involved in the Board's work.

## Arrangements for securing Best Value

101. The integration scheme committed the Board to delivering the national outcomes for Health & Wellbeing, Children, and Criminal Justice. Partners identified a core set of indicators and targets and then agreed a framework for reporting progress against these. Locality planning arrangements are also in place which are multi disciplinary and multi sectorial and allow for different local needs to be taken into account in strategic planning.
102. The three Ayrshire IJBs identified services that each of the three Ayrshire partnerships would lead. For example, the East Ayrshire Health & Social Care Partnership leads the delivery of Primary Care Services. A key objective in respect of the allocation of lead partnership services across the Ayrshire partnerships was to fairly and effectively monitor, manage and share risks and resources. This lead partner service model is an innovative approach to delivering the services.
103. The Integration Scheme sets out the requirement for a Workforce Development Plan which will detail how the partnerships addresses workforce planning, learning and development and organisational development support for the workforce. This is currently being progressed by a pan Ayrshire working group.
104. An Organisational Development Strategy is already in place on a pan Ayrshire basis and reflects the requirements of East Ayrshire. Organisational Development support has been identified and aligned to ensure that the needs of the workforce in terms of organisational and cultural change is supported.

105. A best value review of aids and adaptations was concluded in 2015/16. This recommended various improvements to the service, including the need to introduce service level agreements; and to develop new service standards and performance measures. An implementation group is in place to take forward the recommendations.
106. Overall, we concluded that the Board has arrangements for securing BV and continuous improvement.

## Performance management

107. Performance management is focused on an approach aimed to deliver improved outcomes for individuals and communities. In order to map the range of data being collected, a Data Dictionary has been developed. This collates the information required for the Board to be able to report on its performance measures.
108. The data dictionary feeds into the 15 key outcomes as outlined in the strategic plan. These are the national health and wellbeing outcomes, plus additional outcomes for children and community justice. The Strategic Plan provides details on how these outcomes will be achieved.
109. The key outcomes are measured by a suite of 52 local and national indicators which include a core suite of 23 measures as outlined by the Scottish Government to measure progress in delivering the national health and wellbeing outcomes. The indicators are closely aligned between the Health and Social Care Partnership, the

outcomes set out in the Community Plan, and National Outcomes of the Single Outcome Agreement.

- 110. It is intended that, from 2016/17, progress against each of the indicators and actions will be reported quarterly to the Audit and Performance Committee.
- 111. The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end. This report should cover areas including: service type and balance of care; key care groups; localities; and assessment of performance in achieving best value. While the publication of the performance report is not a statutory requirement until 2016/17, the Board will produce this report in 2015/16.
- 112. Satisfactory financial monitoring reports are submitted four times a year to the Board. These reports include progress in achieving savings targets.
- 113. We concluded that the Board has established a satisfactory performance management framework. More regular reporting of progress against the strategic plan will be introduced in 2016/17.

## Overview of performance targets in 2015/16

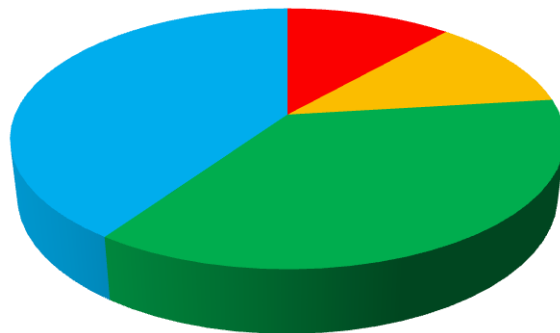
- 114. The first annual review of the strategic plan was completed in March 2016. This reiterates and reinforces the direction set by the initial strategic plan. It highlights the need for further cross-sector working at a locality level. It identified a number of areas where outcome

measures against baseline is positive. These include the following that are above the national average:

- Percentage of adults who agree they are supported to live as independently as possible.
  - Percentage of adults supported at home who agree they had a say in their care.
  - Percentage of adults supported at home who agree their health and social care services seem well co-ordinated.
  - Percentage of carers who feel supported to continue caring.
- 115. There are also though, more challenging areas for the partnership. These include hospital admissions for drug related diagnosis, income deprivation, increasing life expectancy in both men and women, and improvement in premature deaths from cancer. These indicators have not improved to the extent expected.
  - 116. The Board's performance against its 52 indicators encompassing the 15 national outcomes as identified in the strategic plan, has been summarised in the following diagram.

**Exhibit 2**

**Progress against priority areas and core integration indicators 2015/16**



■ Red Status (6) ■ Amber status (6) ■ Green Status (19) ■ n/a (21)

117. Of the 52 indicators detailed in the Boards annual performance report, 19 were categorised as green, 6 amber, 6 red and 21 as 'N/A', where:

- Green means achieved - the expected level of performance has been reached for the measure
- Amber means not achieved - the expected level of performance has not been met but is within agreed tolerance

- Red means not achieved - the expected level of performance has not been met and is not within agreed tolerance
- N/A – no target has been set (for example since the measure is linked to a perception or an experience) or the information required to report this was not available at the time of producing the annual performance report.

**National performance audit reports**

118. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the Board. These are outlined in [Appendix III](#) accompanying this report.

119. East Ayrshire Integration Joint Board has processes in place to ensure that all national performance reports and their impact on the Board are considered by the Board/Audit & Performance Committee, as appropriate. The Chief Officer prepares a covering report highlighting the key issues in national performance reports relevant to the Board.

**Outlook**

120. East Ayrshire Integration Joint Board faces continuing challenges on a number of fronts including mounting financial challenges, meeting exacting performance targets, and delivering the Scottish Government's aim of having people living longer and healthier lives at home or a homely setting (i.e. the 2020 Vision).



121. The Board is responsible for co-ordinating health and social care services and commissioning NHS Ayrshire and Arran and East Ayrshire Council to deliver services in line with the strategic plan. Over time, there will be a shift in resources that will lead to a change in how services are provided, with a greater emphasis on preventative services and allowing people to receive care and support in their home or local community.
122. The Board will need to continue to demonstrate and report whether this is making a positive impact on service users and improving outcomes. To help achieve this it is important that the Board has strategies covering the workforce, risk management, engagement with service users, and data sharing arrangements which help to enable delivery of the Board's strategic priorities.

# Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement in the financial statements</b>		
<p><b>Financial statements</b></p> <p>Financial statements are being prepared for the first time in 2015/16, and will require income, expenditure and year end balances between East Ayrshire Council, NHS Ayrshire and Arran, and the IJB to be agreed.</p> <p><b>Risk:</b> There is a risk that year end procedures for agreeing year end balances are not fully embedded to enable East Ayrshire IJB to present its financial statements in accordance with the Code and in accordance with timescales to meet NHS reporting requirements.</p>	<ul style="list-style-type: none"> <li>• We continued to engage with officers prior to the accounts being prepared to help ensure the relevant information was disclosed and timetable met.</li> <li>• We tested to ensure the governance statement is in accordance with the Code requirements.</li> <li>• We reviewed technical guidance from IRAG and LASAAC.</li> <li>• We ensured accounting policies were appropriate and complete.</li> <li>• We obtained assurances from the auditors of East Ayrshire Council and NHS Ayrshire and Arran over the accuracy, completeness and appropriate allocation of the IJB ledger entries.</li> </ul>	<ul style="list-style-type: none"> <li>• Financial statements were prepared in accordance with the Code and in accordance with timescales to meet NHS reporting requirements.</li> </ul>

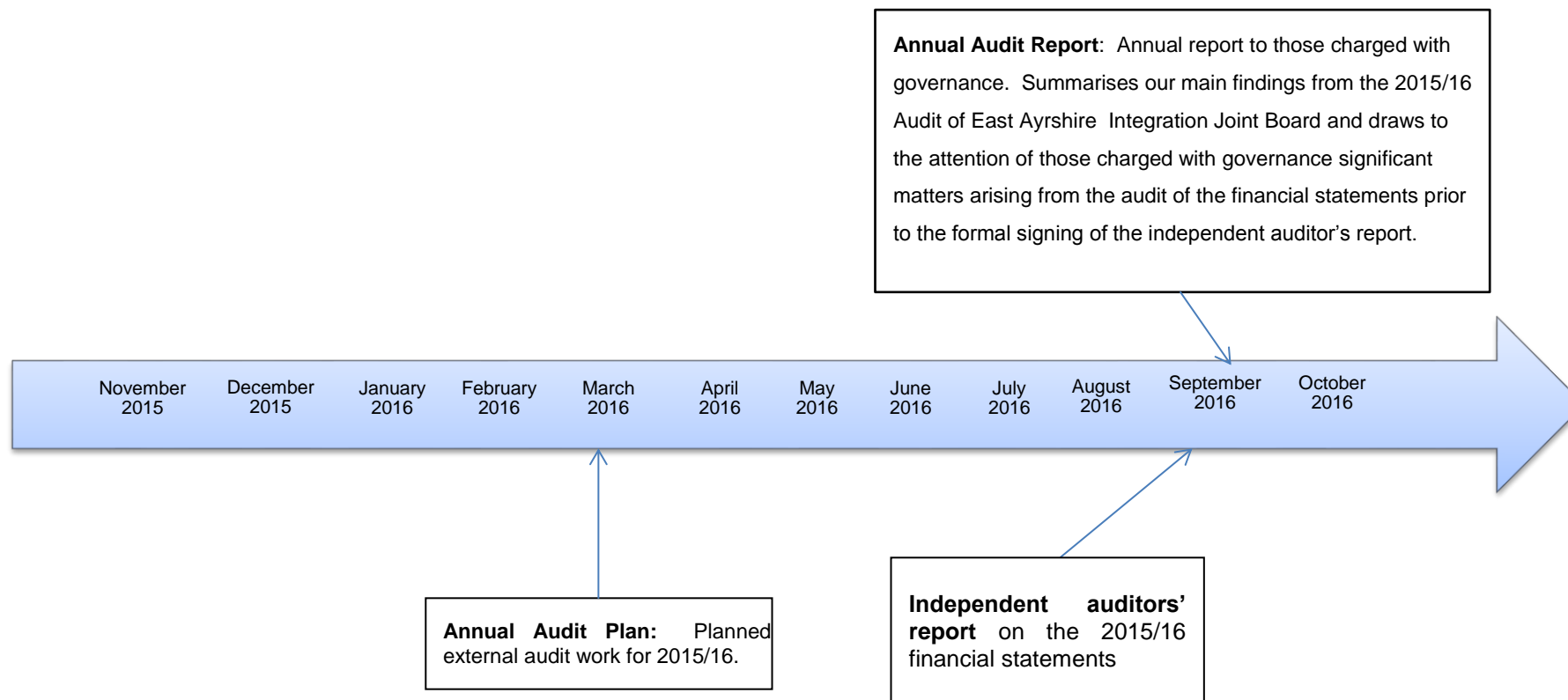
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Governance statement and management assurances</b></p> <p>The preparation of the financial statements of the IJB relies on the provision of financial and non-financial information from the systems of the two partner bodies. The Chief Finance Officer of the IJB must obtain assurance; that the costs transferred to the accounts of the IJB are complete and accurate and were incurred on behalf of the IJB for services prescribed in the integration scheme.</p> <p><b>Risk:</b> The Chief Finance officer does not have adequate assurance that information received from each party is accurate and complete.</p>	<ul style="list-style-type: none"> <li>• We ensured the governance statement adequately reflects the position of IJB.</li> <li>• We ensured that financial reporting throughout the year is accurately reflected in the year end position.</li> <li>• We considered whether appropriate action is taken on issues raised in Internal Audit reports.</li> <li>• We obtained audit assurances from the auditor of the council and health board regarding the accuracy and allocation of IJB transactions and to ensure they are recorded in the correct financial year.</li> </ul>	<ul style="list-style-type: none"> <li>• The governance statement reflected the position of the IJB.</li> <li>• One monetary adjustment was identified in the audit of the annual accounts. The year end position of the board has been accurately reflected.</li> <li>• Satisfactory consideration has been given to issues raised by Internal Audit.</li> <li>• Satisfactory written assurances were received from the external auditors of the council and health board regarding accuracy, allocation and cut-off of IJB transactions.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Management override</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. ISA 240 states that audit procedures should be responsive to risks related to management override of controls.</p> <p><b>Risk:</b> Management could manipulate the position disclosed in the financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• We confirmed the external auditor of the council and health board has carried out testing of year end journal entries to confirm transactions are of the nature and type expected.</li> <li>• Confirmed the external auditor of the council and health board has carried out focussed testing of the regularity and cut-off assertions.</li> <li>• Review of any accounting estimates for bias if applicable.</li> </ul>	<ul style="list-style-type: none"> <li>• Written assurances from both NHS Ayrshire and Arran and East Ayrshire Council provided information of the type, volume and coverage of audit testing completed at each client. This gave satisfactory assurance over the completeness, accuracy and allocation of financial information to be consolidated into the annual accounts.</li> <li>• No significant accounting estimates were relevant to the accounts.</li> </ul>
<p><b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b></p>		

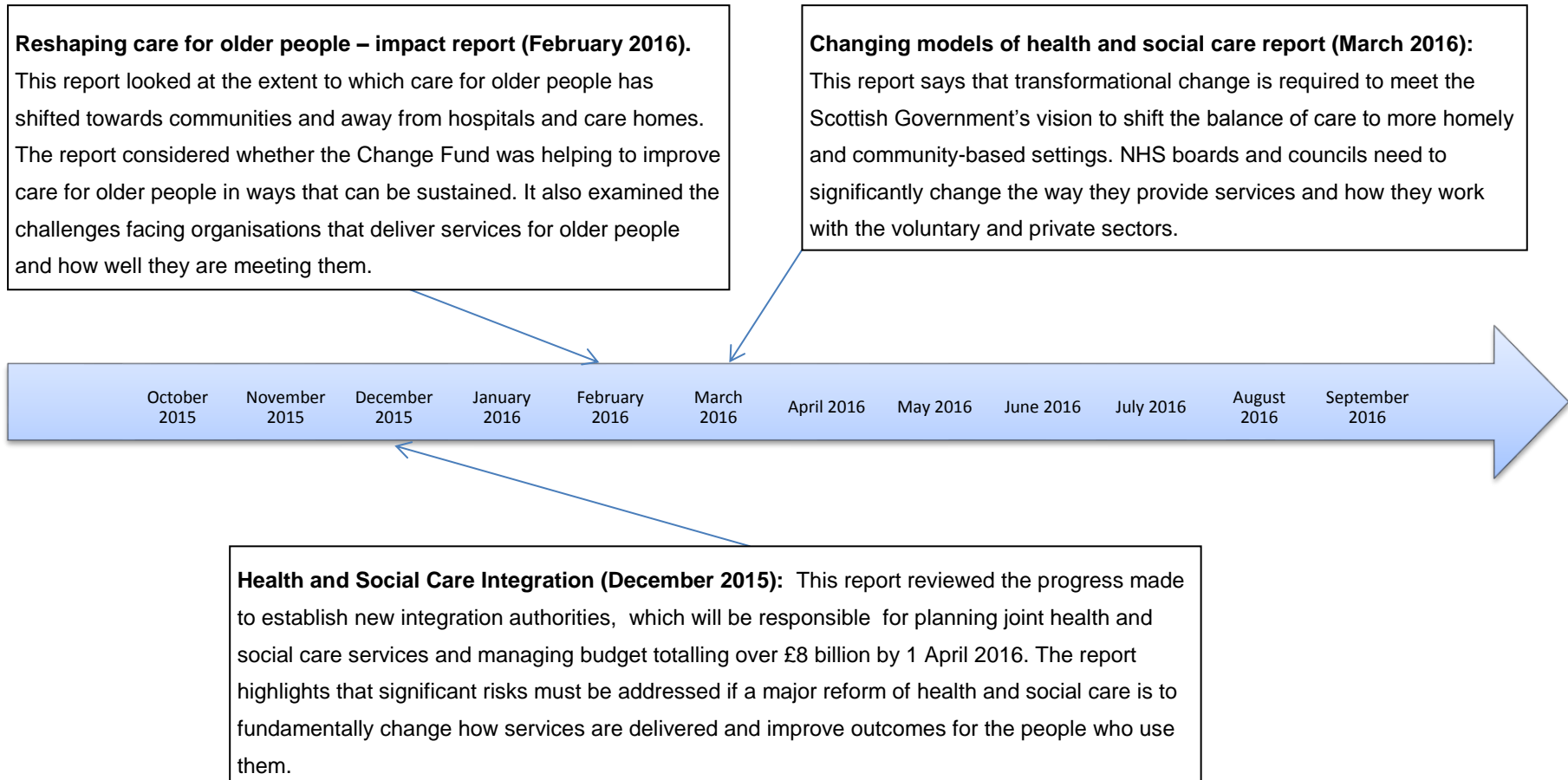
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Financial Sustainability</b></p> <p>The IJB's indicative three year budget requires efficiencies to be sought over this period to enable the IJB to break even.</p> <p><b>Risk:</b> Strong financial management and budgetary control will be required by the IJB and between parties. Otherwise there is a risk the IJB will not meet the efficiencies or service improvements required to meet the challenges caused by reduced funding combined with increasing demand for services.</p>	<ul style="list-style-type: none"> <li>• We ensured that the ongoing budget monitoring accurately reflects the position of the IJB.</li> <li>• Obtained evidence of remedial action being taken on areas of overspend.</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing financial monitoring was consistently reported to the Board. Budget movements and variances from previous periods were explained, as were forecast year end positions. Periodic reports throughout the year accurately reflected the year end position.</li> <li>• Both East Ayrshire Council and NHS Ayrshire and Arran separately reported their own budget position to committee in an accurate and appropriate manner.</li> <li>• From review of budget monitoring reports to the Board, year end variances, service pressures and potential areas of overspend were discussed at an early stage. It was clear that options for remedial actions were discussed and implemented where necessary.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Annual Performance Report</b> – The Public Bodies (Joint Working) (Scotland) Act 2014 requires that an annual performance report is completed within four months of the year end.</p> <p><b>Risk:</b> The IJB may not be able to comply with this requirement and deadline, given that this is the first year of operation and external guidance regarding how this should be presented is not yet available.</p>	<ul style="list-style-type: none"> <li>• We reviewed the quality of ongoing performance reporting to the IJB and Audit and Performance Committee.</li> <li>• Considered progress towards issuing the annual performance report and whether this covers the information required by the, still to be issued, guidance.</li> </ul>	<ul style="list-style-type: none"> <li>• Scottish Government guidance issued in March 2016 has advised that the first required publication of the annual performance report is for 2016/17.</li> <li>• The Board has chosen to issue a performance Report for 2015/16 and it covers most of the areas required by guidelines.</li> <li>• The format for regular performance reporting to the Audit &amp; Performance Committee needs to continue to be developed.</li> </ul>
<p><b>Risk management</b></p> <p>The integration scheme requires that a risk management strategy for the IJB should be agreed and in place by 31 March 2016.</p> <p><b>Risk:</b> Without a formal process of risk recognition and management action to assess and mitigate risk there is a danger that the board could suffer loss or harm on the crystallisation of specific risks.</p>	<ul style="list-style-type: none"> <li>• The risk management strategy is currently being drafted.</li> </ul>	<ul style="list-style-type: none"> <li>• The risk management strategy and the risk register for the IJB is currently being consulted on with implementation expected by Autumn 2016.</li> </ul>

# Appendix II: Summary of East Ayrshire Integration Joint Board local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16





## Appendix IV: Action plan

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1. <b>MKI Ref 76620</b>	53	<p><b>Issue:</b> The Board operated during the first few months of 2016/17 without a fully approved budget.</p> <p><b>Recommendation:</b> Due diligence should be carried out when the 2016/17 budget is approved, and assurance provided that this is consistent with the interim budget.</p>	<p>The delegated budget for Council managed services was approved by East Ayrshire Council on 10 March 2016. An interim delegated budget for NHS managed services was approved by NHS Ayrshire and Arran on 23 May 2016. The final NHS delegated budget was approved by NHS Ayrshire and Arran on 21 June 2016.</p> <p>An Interim Budget 2016/17 report was approved by the IJB on 24 March 2016. An update report will be submitted to the IJB on 18 August 2016. Work is being undertaken through the Ayrshire Finance Leads Group to finalise a consolidated due diligence paper for the three Ayrshire HSCPs. Once completed this paper will be considered by the pan-Ayrshire Strategic Planning and Operations Group and the Chief Executives Group. Following these initial discussions due diligence reports will be submitted for approval by each of the IJBs.</p>	Chief Finance Officer 31/10/16

No. AS ref.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2. 77130	80	<p><b>Issue:</b> The protocol for sharing internal audit reports produced by the internal audit service provider for NHS Ayrshire &amp; Arran, PricewaterhouseCoopers (PwC), has recently been agreed but is still untested. In 2015/16 there was no mechanism in place for PwC to consult with the Audit &amp; Performance Committee regarding the audit work they plan to carry out that relates to the Board, nor was there a protocol for PwC reports to be presented to the Audit &amp; Performance Committee.</p> <p><b>Recommendation:</b> The recently agreed protocol should ensure that all internal audit plans, work and subsequent reports are considered by the Audit &amp; Performance Committee.</p>	<p>a. A mechanism has been proposed by the NHS for PwC to consult with the Audit &amp; Performance Committee (APC) regarding the audit work they plan to carry out that relates to the Board, It is proposed to bring the draft NHS Internal Audit Plan to the three Ayrshire IJB audit committees for consultation as stakeholders. It is planned this will happen immediately after the draft plan has been considered by the NHS audit committee in February. The APC will continue to be consulted during the preparation of the East Ayrshire Council Plan.</p> <p>b. The recent protocol facilitates sharing so that that IJB can satisfy its governance obligations; this will include the sharing of PwC reports with the APC and the parent body audit committees.</p>	<p>IJB Chief Internal Auditor / NHS</p> <p>a. February 2017 and ongoing.</p> <p>b. Immediate and ongoing – PwC governance report tabled at the APC on 2 August 2016.</p>