

Notice of meeting and agenda



Midlothian Integration Joint Board - Audit and Risk Committee

Venue: Committee Room,
Midlothian House, Dalkeith, EH22 1DN

Date: Thursday, 06 September 2018

Time: 14:00

Allister Short
Chief Officer

Contact:

Clerk Name: Mike Broadway

Clerk Telephone: 0131 271 3160

Clerk Email: Mike.Broadway@midlothian.gov.uk

Further Information:

This is a meeting which is open to members of the public.

1 Welcome, Introductions and Apologies

2 Order of Business

Including notice of new business submitted as urgent for consideration at the end of the meeting

3 Declarations of Interest

Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

4 Minutes of Previous Meeting

- | | | |
|------------|---|--------------|
| 4.1 | Minute of Meeting held on 20th June 2018 – For Approval | 3 - 8 |
|------------|---|--------------|

5 Public Reports

- | | | |
|------------|---|----------------|
| 5.1 | Appointed Auditor - Letter of Representations – Report by Chief Finance Officer | 9 - 18 |
| 5.2 | Annual Audit Report to year ended 31 March 2018 – Report by External Auditors, EY | 19 - 42 |
| 5.3 | Annual Accounts 2017/18 – Report by Chief Finance Officer | 43 - 84 |
| 5.4 | Risk - partners key risks and any potential impact on the IJB – Report by Chief Finance Officer | 85 - 88 |
| 5.5 | Overview of Internal Audit Plan for 2018/19 - MIJB Chief Internal Auditor to Report | |

6 Private Reports

No private reports to be discussed at this meeting.

7 Date of Next Meeting

The next meeting of the Midlothian Integration Joint Board Audit and Risk Committee will be held on Thursday 6th December 2018 at 2.00 pm.



Midlothian Integration Joint Board Audit and Risk Committee

Date	Time	Venue
Thursday 20 th June 2018	3.00pm	Committee Room, Midlothian House, Buccleuch Street, Dalkeith EH22 1DN.

Present:

Cllr Jim Muirhead (Chair)	Cllr Pauline Winchester
Angus McCann	Jane Cuthbert (Independent Member)

Present (non-voting):

Alison White (substitute for Chief Officer, Allister Short)	David King (Chief Finance Officer)
Jill Stacey (Chief Internal Auditor)	

In attendance:

Chris Lawson (Risk Manager, Midlothian Council)	Mike Broadway (Clerk)

Apologies:

Alex Joyce	Keith Macpherson (EY, External Auditors)
Allister Short (Chief Officer)	Elaine Greaves (Principal Auditor, Midlothian Council)

Midlothian Integration Joint Board

Audit and Risk Committee

Thursday 20 June 2018

1. Welcome and introductions

The Chair, Jim Muirhead, welcomed everyone to this Meeting of the Midlothian Integration Joint Board Audit and Risk Committee, following which there was a round of introductions.

2. Order of Business

The order of business was confirmed as outlined in the agenda that had been previously circulated.

3. Declarations of interests

No declarations of interest were intimated.

4. Note of Meeting

The Minutes of Meeting of the Midlothian Integration Joint Board Audit and Risk Committee held on 29th March 2018 was submitted and approved.

5. Reports

Report No.	Report Title	Presented by:
5.1	MIJB Transformational Funding - Report by MIJB Chief Internal Auditor	Jill Stacey

Executive Summary of Report

A report dated May 2018 was presented by the Chief Internal Auditor. The report set out the findings of an audit undertaken by NHS Lothian Internal Audit reviewing how the MIJB had ensured that all transformational funding had been received, and that it had been effectively utilised to support the redesign of primary care services within Midlothian.

Two key findings for improvement had been identified during the review, which were detailed within the report; these findings had been incorporated into the Management Action Plan.

Summary of discussion

The Committee, having heard from the Chief Internal Auditor, acknowledged her concerns that the support from NHS Lothian Internal Audit for her role as Chief Internal Auditor of the MIJB was not necessarily clear but she planned to have further discussions with NHS Lothian regarding this. The lack of clarity had impacted to a degree on this report and the management of the MIJB did not support the

Midlothian Integration Joint Board

Audit and Risk Committee

Thursday 20 June 2018

recommendations in the report. The Committee discussed this further – should they be concerned both over the report and the clarity issues - management's argument was that MIJB had agreed a strategy, the partnership should then deliver it and not report back to the MIJB at low levels of information; a view supported by the Board Chair, Angus McCann. The Committee's inclination was to accept management's position but for management to be clear as to what it expects from the partners. Jill noted that part of the Internal Audit reviews in 2018/19 would consider corporate governance and clarity around the totality of the governance could be addressed there.

Decision

After further discussion the Audit and Risk Committee agreed to note the report and intended actions to clarify (i) the level of support to be given by NHS Lothian's Internal Audit to the MIJB's Chief Internal Auditor and (ii) what management expects from the partners.

Action

Chief Internal Auditor

Report No.	Report Title	Presented by:
5.2	Follow up Review of Internal Audit Recommendations relating to Midlothian Health and Social Care Integration Joint Board - Report by MIJB Chief Internal Auditor	Jill Stacey

Executive Summary of Report

The purpose of this report was to:

- inform the MIJB Audit and Risk Committee of the number of MIJB audit recommendations reported as complete; and
- report, for a sample of MIJB audit recommendations raised, on the adequacy of actions taken by Management to complete the recommendations.

The report advised that from a sample of 14 completed recommendations tested, 13 were found to have been completed satisfactorily and 1 was identified as not being fully complete. This related to an action to ensure that recommendations raised by internal and external assurance providers should be updated on the Pentana performance system to allow tracking for implementation. Although MIJB audit recommendations raised by Internal and External Audit had been recorded on the Pentana performance system, MIJB audit recommendations raised by the NHS Lothian Internal Audit team (3 in total) had not been recorded on the system. These actions had now been uploaded onto the Pentana performance system and were included as part of this review.

Midlothian Integration Joint Board

Audit and Risk Committee

Thursday 20 June 2018

Summary of discussion

Having heard from the Chief Internal Auditor, the Committee in considering the report discussing the sampling progress, how this would be refined over time and used to help inform future audits.

Decision

The Audit and Risk Committee noted:-

- the content of this report; and
- that Internal Audit would continue to sample audit recommendations reported as complete, review the adequacy of the actions taken and provide updates to the Audit and Risk Committee.

Action

Chief Internal Auditor

Report No.	Report Title	Presented by:
5.3	Midlothian Health and Social Care Integration Joint Board Internal Audit Annual Assurance Report 2017/18 – Report by MIJB Chief Internal Auditor	Jill Stacey

Executive Summary of Report

The purpose of the report was to present to the Midlothian IJB Audit and Risk Committee the Internal Audit Annual Assurance Report for the year to 31 March 2018 for the Midlothian Integration Joint Board (MIJB) which included the Chief Internal Auditor's independent assurance opinion on the adequacy of MIJB's overall control environment.

The report explained that the Public Sector Internal Audit Standards (PSIAS) required the MIJB's Chief Internal Auditor to prepare a report that incorporates the annual opinion on the adequacy and effectiveness of Midlothian Integration Joint Board's framework of governance, risk management and control, a summary of the work that supports the opinion, and a statement on conformance with the PSIAS.

Summary of discussion

The Chief Internal Auditor in presenting the report confirmed that based on their reviews, risk assessments and knowledge, the MIJB's governance arrangements, risk management and systems of internal control were adequate.

The Committee in discussing the report acknowledged the good progress that had been made and some of the challenges that lay ahead.

Midlothian Integration Joint Board

Audit and Risk Committee

Thursday 20 June 2018

Decision

After further discussion, and having regards to the assurances contained therein, the Audit and Risk Committee agreed to approve the Midlothian Integration Joint Board Internal Audit Annual Assurance Report 2017/18.

Action

Chief Internal Auditor

Report No.	Report Title	Presented by:
5.4	MIJB Draft Annual Accounts 2017/18 – Report by Chief Finance Officer	David King

Executive Summary of Reports

The purpose of the report was to present to the Midlothian IJB Audit and Risk Committee the unaudited Annual Accounts of the MIJB for the year ending 31 March 2018 for consideration and approval.

The report explained that IJB was required to prepare a set of annual accounts for the financial year 2017/18. A draft of these accounts must be agreed by the IJB before 30 June whereupon the draft must be published on the IJB's website and presented to the IJB's auditors for review. Unfortunately, because of timing issues, the draft Annual Accounts were not available to be presented to the IJB at its last meeting (7 June, 2018) but the IJB has agreed that the draft annual accounts may be agreed on its behalf by the Audit and Risk Committee.

Summary of discussion

The Committee, heard from the Chief Finance Officer, who explained that the draft Annual Accounts, required to be considered in conjunction with preceding item of business; the Chief Internal Auditors Internal Audit Annual Assurance Report 2017/18.

In response to Members' comments, the Chief Finance Officer acknowledged that some further editorial work was still required, however in order to meet the required timescales it had been important for the draft Annual Accounts to be brought forward for consideration.

Decision

After further discussion, and having regards to the Midlothian Integration Joint Board Internal Audit Annual Assurance Report 2017/18, the Audit and Risk Committee agreed to approve the unaudited draft Annual Accounts for 2017/18.

Report No.	Report Title	Presented by:
5.5	Risk Register – Report by Risk Manager	Chris Lawson

Midlothian Integration Joint Board

Audit and Risk Committee

Thursday 20 June 2018

Executive Summary of Report

The purpose of this report was to provide the Audit & Risk Committee with an update on the MIJB Risk Register and the actions being taken to identify and manage risk in order to ensure the successful delivery of the MIJB's key objectives, as detailed in the Strategic Plan. The report also provided the Committee with an overview of the MIJB's operating context taking account of current issues, future risks and opportunities.

Summary of discussion

Having heard from the Risk Manager who responded to Members' questions, the Committee discussed the Risk Register, giving particular consideration to the risks associated with the impact of demographic changes and the use of acute hospital beds. It was also felt that it would be useful going forward if any operational risks faced by the Council and NHS Lothian that could impact on the MIJB were reported so that a view could be taken on their possible inclusion in the Risk Register.

Decision

The Audit and Risk Committee:-

- **confirmed that the risks contained in the report reflected the current risks/opportunities facing the MIJB;**
- **noted the work that would be undertaken to address issues arising from demographic changes and the use of acute hospital beds;**
- **approved plans to draft a report on any operational risks faced by the Council and NHS Lothian that could impact on the MIJB so that a view could be taken on their possible inclusion in the Risk Register; and**
- **otherwise, noted the report.**

Action

Risk Manager

6. Private Reports

No private reports were submitted to this meeting.

7. Date of next meeting

The next meeting of the Midlothian Integration Joint Board Audit and Risk Committee will be held on Thursday 6th September 2018 at 2.00pm.

The meeting terminated at 4.22 pm.

Midlothian Integration Joint Board

Audit and Risk Committee



Thursday 6 September 2018 at 2.00 pm

Appointed Auditor – Letter of Representations

Item number: 5.1

Executive summary

The IJB, as a statutory body, requires to produce a set of Annual Accounts every financial year. These accounts must be audited by an independent (external) auditor and the IJB is required to request that the audit is undertaken and to provide a range of assurances to the auditors

This is done through a 'letter of representations' which is written by the IJB (and signed on its behalf by the CFO and the Chair of the Audit and Risk Committee) to the appointed auditor providing these assurances.

The Audit and Risk Committee is **asked to:**

1. Agree that the letter of representations is signed on the IJB's behalf by the CFO and the Chair of the Audit and Risk committee.

Appointed Auditor – Letter of Representations

1. Purpose

This report presents the letter of representations for the 2017/18 audit of the IJB to the committee.

2. Recommendations

The Audit and Risk Committee is asked to :-

Agree that the letter of representations is signed on the IJB's behalf by the CFO and the Chair of the Audit and Risk committee.

3. Background and main report

- 3.1 The IJB is a statutory entity governed by section 110 of the Local Government Scotland Act (1973) along with the supporting regulations. It is required to produce a set of annual accounts every financial year.
- 3.2 A key part of this process is the 'letter of recommendations' which provides assurance to the appointed (external) auditors that the IJB is aware of its responsibilities in the preparation of its accounts and has disclosed all the information that pertain to the independent audit of the accounts.
- 3.3 This letter then requires to be signed on behalf of the IJB by the Chief Finance Officer and the Chair of the Audit and Risk committee.
- 3.4 The letter is attached to this report and the committee is asked to review the letter and agree that the CFO and the Chair of the committee can sign this letter and provide the appropriate assurance to the appointed (external) auditors

4. Policy Implications

- 4.1 There are no further policy implications arising from any decisions made on this report.

5. Equalities Implications

- 5.1 There are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper.

6. Resource Implications

6.1 There are no further resource implications arising from this paper.

7 Risks

7.1 The issue raised by this report are already identified in the IJB's risk register

8 Involving People

8.1 The Audit and Risk committee's papers will be published on the IJB's website.

9 Background Papers

9.1 None.

AUTHOR'S NAME	David King
DESIGNATION	Chief Finance Officer
CONTACT INFO	David.king@nhslothian.scot.nhs.uk
DATE	August 2018

Appendices:- Letter of Recommendations (unsigned)

Midlothian Integration Joint Board



Chief Officer: - Allister Short

Fairfield House
Dalkeith
Midlothian
EH22 3ZH

Ernst & Young

Atria One,
144 Morrison Street,
Edinburgh
EH3 8EB

Date -

This letter of representations is provided in connection with your audit of the financial statements of Midlothian Integration Joint Board ("the IJB") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the IJB's financial position of Midlothian Integration Joint Board as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered

necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with Local Authority Accounts (Scotland) Regulations 2014, Section 12 of the Local Government in Scotland Act 2003, and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the IJB, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the IJB in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the IJB, we believe that the IJB has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the IJB's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the IJB (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the IJB’s financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the IJB’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the IJB and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the IJB’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related

balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the IJB has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

E. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon.
2. We confirm that the content contained within the other information is consistent with the financial statements.
3. We also confirm that:
 - a. the disclosures within the Management Commentary reflects our understanding of the financial and non-financial performance of the IJB over the reporting year, is consistent with the financial statements and has been prepared in accordance with statutory guidance.
 - b. the information given in the Annual Governance Statement for the financial year for which the IJB financial statements are prepared reflects the IJB's governance framework, is consistent with the IJB's financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

- c. The information contained in the auditable part of the Remuneration Report has been prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

J. Reserves

- 1. We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

Yours faithfully,

Chief Financial Officer

Chairman of Audit and Risk Committee

Midlothian Integration Joint Board

**Annual Audit Report to Members
of the IJB and the Controller of
Audit - year ended 31 March 2018**

DRAFT

6 September 2018

Section	Appointed auditor responsibility	Pages
Executive summary		1-3
Financial statements accounting and audit matters	Provide an opinion on audited bodies' financial statements	4-8
	Notify the Controller of Audit when circumstances indicate that a statutory report may be required	6
	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports	6
Wider scope audit	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:	
	▸ financial position and arrangements for securing financial sustainability	10-12
	▸ suitability and effectiveness of corporate governance arrangements	13
	▸ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets	14
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards:	
	Appendix A: audited bodies' responsibilities	16
	Appendix B: required auditor communications	17-18
	Appendix C: independence and audit quality	19-20
	Appendix D: action plan	21

About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Integration Joint Board (the IJB) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive Summary

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Integration Joint Board (the IJB) for the five year period 2016/17 to 2020/21.

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the IJB and the Controller of Audit, and presented to both IJB management and those charged with governance. After consideration by the IJB, this report is provided to Audit Scotland and published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the IJB. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Scope and responsibilities

The Code sets out the responsibilities of both the IJB and the auditor. We provided details of these in our Annual Audit Plan, which was presented to the audit and risk committee on 29 March 2018. We summarise these responsibilities of the IJB in Appendix A.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2017/18 financial statements. We carried out our audit in accordance with the plan. We applied the following level of materiality to our audit.

- | | |
|---|---------------|
| ▶ Materiality for our audit - no change to that reported in our Annual Audit Plan | £1.2 million |
| ▶ Tolerable Error is our materiality applied at an individual account balance - no change | £0.9 million |
| ▶ Reporting threshold, set in line with the requirements of the Code - no change | £0.06 million |

Financial statement audit

We are responsible for conducting an audit of the financial statements of the IJB. We provide an opinion on the financial statements as to:

- ▶ whether they give a true and fair view of the financial position of the IJB as at 31 March 2018 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published by the IJB along with its financial statements.

Wider scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider-scope public audit. Our audit work over the wider scope audit dimensions compliments our financial statements audit.

Key contacts

Stephen Reid, Partner
sreid2@uk.ey.com

Olga Potapova, Assistant Manager
opotapova@uk.ey.com

Ernst & Young LLP, Atria One, 144 Morison Street, Edinburgh EH3 8EB

Independence

We confirm that we have undertaken client and engagement continuance procedures, included in which is our assessment of our continuing assessment of our independence to act as your external auditor.

Financial statements audit

We [have issued] an unqualified audit opinion on the IJB financial statements.

We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in our Annual Audit Plan.

The annual accounts, statement of responsibilities, governance statement and remuneration report were received at the start of the audit fieldwork. We made some suggestions to enhance their overall presentation.

Wider scope audit – key messages

We set out below our key messages in respect of each of the dimensions of public sector audit, along with our overall assessment of each of these in terms of red / amber / green, building on our assessment and recommendations from the 2016/17 audit. We have made two recommendations for management as a result of our work.

Financial management	<ul style="list-style-type: none"> ▶ There were a number of significant movements in the financial forecasts during the year, with the outturn position supported by non-recurring funding. ▶ The IJB has established its core financial management arrangements, and we are satisfied that these are adequate for the current management of its financial activities. 	Amber
Financial sustainability	<ul style="list-style-type: none"> ▶ We have concluded that achieving financial sustainability on an underlying operational delivery basis, excluding non-recurring funding, continues to represent a significant challenge for the IJB. ▶ Management has recognised the need to establish longer term financial planning arrangements. The success of these is critical to supporting the achievement of the IJB's strategic objectives. The IJB's Partners have supported this by providing indicative funding allocations through to 2022/23. 	Amber
Governance & transparency	<ul style="list-style-type: none"> ▶ We have concluded that the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity. ▶ The IJB has continued to develop its approach to risk management, with a risk management strategy approved and the risk register considered regularly by the audit and risk committee. 	Green
Value for money	<ul style="list-style-type: none"> ▶ In response to the need to measure performance and progress against the IJB's Strategic Plan, we have concluded that the IJB has identified local improvement goals to measure its performance which are appropriate to the stated national goals. In addition sources of data and information have been identified and reported to the Board. ▶ The IJB needs to take further measures to ensure that it produces its annual performance report in line with the timeline requirements of the Act. 	Amber

2. 2017/18 financial statements audit

2. Summary of 2017/18 audit opinion



The detailed form and content of our audit report, and the requirements underpinning the report, are set out in guidance issued by Audit Scotland. This covers our reporting requirements in accordance with International Standards on Auditing (UK), plus those matters prescribed by the Accounts Commission.

Element of Audit opinion	Nature of opinion and basis for that
Opinion on financial statements	Unqualified opinion
<ul style="list-style-type: none"> ▶ Truth and fairness of the state of affairs of the IJB at 31 March 2018 and of the income and expenditure for the year then ended ▶ Preparation of the financial statements in accordance with the relevant financial reporting framework 	<ul style="list-style-type: none"> ▶ Performance of audit procedures to respond to our assessed risk of misstatement, including significant risks ▶ Accounting policies are appropriate and estimates are reasonable ▶ Completion of financial statement disclosure checklists / consideration of relevant guidance issued by CIPFA / Audit Scotland
Conclusions relating to the going concern basis of accounting	No matters to report
<ul style="list-style-type: none"> ▶ The use of the going concern basis of accounting used in the preparation of the financial statements is not appropriate 	<ul style="list-style-type: none"> ▶ Supported by our core financial statements audit work, supplemented by our wider scope audit procedures in respect of financial sustainability
Other information in the annual accounts	No matters to report
<ul style="list-style-type: none"> ▶ We are required to consider whether the other information in the annual accounts is materially inconsistent with the financial statements or our knowledge obtained in the audit. 	<ul style="list-style-type: none"> ▶ Review of committee minutes and papers / discussions with management / understanding of the business / participation in shared risk assessment
Opinions on matters prescribed by the Accounts Commission	Unqualified opinions
<ul style="list-style-type: none"> ▶ The audited part of the Remuneration Report has been properly prepared in accordance with applicable regulations ▶ Information in the Management Commentary / Annual Governance Statement is consistent with the financial statements, and prepared in accordance with the relevant guidance 	<ul style="list-style-type: none"> ▶ We agreed the form of the report to the regulations and agreed the disclosures to underlying accounting records and supporting schedules ▶ We reviewed the content of the narrative statements to the information known to us in the audit, and against the requirements of the guidance
Matters on which we are required to report by exception	No matters to report by exception
<ul style="list-style-type: none"> ▶ Whether there has been a failure to achieve a prescribed financial objective ▶ Whether adequate accounting records have been kept ▶ Whether financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records ▶ Whether we have not received the information we require for our audit 	<ul style="list-style-type: none"> ▶ We were provided with all the information we required ▶ We have been able to agree information to the accounting records

The Annual Accounts enables the IJB to demonstrate its accountability for the resources at its disposal, and its overall performance in the application of those resources during the year. They also enable the IJB to demonstrate openness and transparency in its governance and remuneration arrangements.

Financial Statements Preparation 2017/18

Compliance with requirements

The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations) set out the statutory requirements on the IJB in respect to the annual accounts, their availability for public inspection and the consideration and signing by the IJB or a committee with an audit or governance remit.

The IJB complied with the relevant requirements. In particular, the unaudited annual accounts were considered by the audit and risk committee on 20 June, prior to their submission to us and in advance of the deadline of 31 August.

Opinions on matters prescribed by the Accounts Commission

Management Commentary: Required by Regulation 8(2)(a) of the Local Authority Accounts (Scotland) Regulations 2014, under statutory guidance included in Scottish Government Local Government Finance Circular 5/2015. Audit Scotland requires us to read the management commentary and express an opinion on whether the information given is consistent with the financial statements and whether it has been prepared in accordance with the statutory guidance.

We read the management commentary and compared the content against the information in the financial statements and against the statutory requirements. We concluded that the management commentary met the requirements placed on the IJB.

Remuneration Report: Required by Regulation 8(2)(d) of the Local Authority Accounts (Scotland) Regulations 2014. Auditors are required by the Code to audit the disclosures of remuneration and pension benefit, pay bands, and exit packages and express a separate opinion within their independent auditor's report on whether they have been properly prepared in accordance with the Regulations.

Due to the shared roles held by the Chief Officer and the Chief Finance Officer, the remuneration report is transparent in disclosing the joint roles held and the remuneration disclosed. No amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentation in accordance with the statutory requirements.

Annual Governance Statement: Required by Regulation 8(2)(c) of the Local Authority Accounts (Scotland) Regulations 2014. Auditors are required by the Code to report as to whether the statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016)

We reviewed the Annual Governance Statement within the financial statements against the required guidance. We were satisfied that it met the requirements and was consistent with both the governance framework and key findings from relevant audit activity.

Section 3 of this report sets out additional procedures we have undertaken in respect to the Governance and Transparency wider scope audit dimension.

Impact on audit opinion – unqualified opinion on prescribed matters

Other matters

We have not identified any circumstances to notify the Controller of Audit that a statutory report may be required under the Local Government (Scotland) Act 1973. We did not receive any objections to the 2017/18 annual accounts from members of the public.

Audit differences

There are no unadjusted or adjusted audit differences arising from our audit.

2. Significant audit risks



Significant risk - risk of fraud in income and expenditure recognition: ISA (UK) 240 requires us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. In the public sector, we extend that to consider the risk of material misstatements by manipulation of expenditure.

Our overall approach

As set out in our Annual Audit Plan, given the nature of funding to the IJB from the Council or NHS body, we rebutted the assumed fraud risk in respect of the income. For expenditure we associated the risk to the assurance over the existence and occurrence of expenditure incurred by the IJB in commissioning services by the Council and NHS Lothian.

What did we do in response to the significant risk?

- ▶ We challenged management on how the IJB gains assurance over the expenditure it incurs and the basis of payments it makes to its partner bodies to deliver commissioned services. Management took this on board and ensured that the information presented to the IJB stated clearly the source of information provided by the IJB partners. Reports to the IJB at the year end also made clear that the year end outturn represented the approval by the IJB of the final expenditure incurred in commissioning services from the Council and NHS Lothian.
- ▶ As part of the year end process, the IJB obtained confirmation statements from the senior finance professional at NHS Lothian and Midlothian Council of the spend of their respective bodies on delivering services, and hence their request for payment from the IJB to cover those costs. We obtained a copy of those confirmations and agreed to the source.
- ▶ We obtained independent confirmation from the appointed auditor at both Midlothian Council and NHS Lothian of the income and expenditure transactions recorded at their respective audit clients. The confirmations agreed the income and expenditure amounts, as well as the year end debtor/creditor balances which resulted in the IJB have a general fund reserve of £900,000 at the year end.

What are our conclusions?

Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

2. Significant audit risks (cont.)



Significant risk – misstatement due to fraud or error: As identified in ISA 240, management is in a unique position to perpetrate fraud in its financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively.

We respond to this risk on every engagement

Audit procedures performed	What did we find?
<i>We gave consideration to the risk of fraud, inquiring of management about their assessment of the risks of fraud and the controls put in place to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.</i>	We have not identified any material weaknesses in controls or evidence of material management override.
<i>Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</i>	We obtained all journals posted by management to record the transactions of the IJB, which are hosted on the Midlothian Council financial ledger. All of the journals for the IJB's transactions were posted at the year end and we reviewed all of these in the course of our work.
<i>Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates.</i>	There are no material accounting estimates included in the financial statements. We confirmed the process for ensuring that there were no claims applicable to the IJB which required provision to be made as part of its participation in CNORIS (Clinical Negligence & Other Risks Indemnity Scheme).
<i>Evaluate the business rationale for any significant unusual transactions</i>	We did not identify any significant unusual transactions outside the normal course of business.
<i>Consistency and application of accounting policies / overall presentation of financial information</i>	We consider the accounting policies adopted by the IJB to be appropriate. There are no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.
What are our conclusions?	
<p>We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.</p> <p>There was no disagreement during the course of the audit over any accounting treatment or disclosure. We encountered no significant difficulties in the audit.</p>	

3. Wider scope audit & Best Value

3.1 Financial management

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

Amber

- ▶ There were a number of significant movements in the financial forecasts during the year, with the outturn position supported by non-recurring funding.
- ▶ The IJB has established its core financial management arrangements, and we are satisfied that these are adequate for the current management of its financial activities.

2017/18 financial statements outturn

In our audit plan we highlighted financial management as an audit focus area. The in-year financial reporting had been highlighting significant budget pressures and the need for ongoing recovery action by the Partners up to the year end. At the year-end, the IJB reported a surplus position of £900,000, as set out below.

Expenditure aspect	Budget £000	Outturn expenditure £000	Variance £000
Social care	38,805	38,023	782
Health	99,228	99,100	118
TOTAL - IJB	138,033	137,123	900

Elements of financial management, and our assessment of the IJB's arrangements

- ▶ Is it clear why budgets have changed during the year, including how income and expenditure have changed since the budget was set at the beginning of the year?
- ▶ How accurate is financial forecasting?

The outturn position reflects a genuine improvement over reported pressures during the year as a result of actions taken in the year. As at quarter 3 reporting, the social care budget was reporting an overspend of £765,000. The community care resource panel is the largest single component of the budget and recovery action was concentrated on improved management and efficiencies in this area.

However, the report of the Chief Finance Officer also notes that achievement of the underspend was underpinned by non-recurring support. In particular, in respect of social care, non-recurring funding of circa £900,000 was made available. In total, the IJB reports an underlying operational position of £(586,000), demonstrating that significant challenges remain in delivering a balanced budget in the year on a recurring basis.

The Integration Scheme sets out the process to be followed for managing both over and underspends. In respect of underspends, the Integration Scheme allows that these are retained by the IJB as reserves where they relate to a direction given by the IJB. In conjunction with the IJB, the Partners have agreed that the underspend position reported relates to funding which should be held as reserves of the IJB. The IJB has earmarked £243,000 of specific funding from Midlothian Council for specific purposes, with the remaining £657,000 held as general un-earmarked reserves. This is in line with the IJB's reserves policy.

- ▶ Are standing financial regulations comprehensive, current and promoted within the body?
- ▶ Are there suitably qualified and experienced officials leading the body's finance team?

Financial regulations have been established for the IJB. In accordance with statutory requirements, the IJB appointed a Chief Finance Officer (CFO). The CFO is employed by NHS Lothian and also holds the post of CFO at East Lothian Integration Joint Board. We are satisfied therefore that the Board has made arrangements for the proper administration of its financial affairs. We note that the incumbent CFO is retiring from 30 September and the IJB has just appointed a replacement to formally take up post from 1 October 2018.

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

Amber	<ul style="list-style-type: none">▶ We have concluded that achieving financial sustainability on an underlying operational delivery basis, excluding non-recurring funding, continues to represent a significant challenge for the IJB.▶ Management has recognised the need to establish longer term financial planning arrangements. The success of these is critical to supporting the achievement of the IJB's strategic objectives. The IJB's Partners have supported this by providing indicative funding allocations through to 2022/23.
-------	---

We identified in our Annual Audit Plan that service redesign and service transformation will be required in the upcoming years to enable the IJB to meet the budget pressures arising from the growth and service demand pressures in the Midlothian area. Consequently, given the identified financial pressures, this was an audit focus area for the year.

Elements of financial sustainability, and our assessment of the IJB's arrangements

	<p>We considered whether:</p> <ul style="list-style-type: none">▶ financial balance has or will be achieved?▶ have any short-term financial challenges been identified and addressed through a financial recovery plan?▶ How appropriate are the arrangements put in place to address any identified funding gaps?
	<p>The IJB considered its process for financial assurance in March 2018, when considering its 2018/19 budget. It examined the budget propositions from its Partners and applied its two tests - that of fairness and adequacy. At that time a formal offer had been made by Midlothian Council and accepted by the IJB, However, only an indicative position for NHS Lothian was available for consideration. The IJB agreed to accept the NHS Lothian indicative position on the basis that NHS Lothian provided further information on the plans underway to deliver financial balance within the Set Aside budgets and that the final offer was not materially different from the indicative position. The final offer was considered by the IJB at its meeting in June 2018.</p> <p>The NHS Lothian 2018/19 Financial Plan was approved by the Board of NHS Lothian on 4 April 2018. The Plan presents a projected financial gap of circa £21 million and provides limited assurance on the achievement of a balanced outturn next year. The allocation of funding made to the IJB for 2018/19 was £86.89 million, which excluded the non-cash limited element of the budget. This compares to £90.52 million actual expenditure in health in 2017/18, against an initial £84.7 million budget, when the non-cash limited expenditure is eliminated. Additional funding throughout 2018/19 is anticipated through health, recognising the nature of budgetary arrangements in the NHS.</p> <p>The IJB is reporting financial pressures of £2.83 million on its overall budget for 2018/19. Actions to bring the budget back into balance are to be developed in accordance with the requirements of the Integration Scheme, and are due to be reported back to the IJB for ongoing monitoring. Both Partners have provided the IJB with indicative funding allocations up to 2022/23, to support medium term financial planning.</p> <p><i>Recommendation 1</i></p>

	<ul style="list-style-type: none">▶ Has a reserves strategy been put in place and how does the current level of reserves match that strategy?
	<p>The IJB approved its reserves strategy during 2016/17, in recognition of this being one element of best practice in establishing the longer term financial planning process for the IJB. The reserves strategy approved a level of 2% of net expenditure, equating to approximately £1 million.</p> <p>Actual reserves held as at 31 March 2018 were in line with the strategy, at £0.9 million. It was recognised by IJB management that this arose in the main due to non-recurring resources being made available to the IJB to support overall service transformation as well as specific initiatives.</p>

Elements of financial sustainability, and our assessment of the IJB's arrangements (cont.)



- ▶ Does the body understand the long-term pressures, including demand pressures, and have these been built into plans and strategies?
- ▶ How effective are the financial planning systems in identifying and addressing risks to financial sustainability across the shorter and longer terms?

The IJB has identified the longer term changes in demographics which will impact on the delivery of its services. In discussion with management, it is clear that there is a full understanding of these challenges and how integration through transformation is essential to bring the greater focus on prevention than intervention in order to manage the long term pressures.

In March 2018, the IJB considered an updated Financial Strategy and Financial Plan, setting out the three year baseline financial position.

The key themes of the financial strategy are:

- ▶ Prioritising the Allocation of Resources
- ▶ Making more efficient use of resources
- ▶ A move from failure demand to prevention
- ▶ A move from hospital care or care homes to community based services
- ▶ A move to improved quality and access
- ▶ A move from working in silos to team working
- ▶ A move from reactive to anticipatory care planning.

Internal audit reviewed the IJB's arrangements in respect of aspects of transformational funding in the year. The area under review comprised five control objectives, of which three received significant assurance, and two limited assurance. Project proposals were created for all transformational funding during the period 2016-18. Not all project plans were provided to the IJB Board, and there was no regular reporting to the IJB Board on project progress throughout the year. However, the IJB was aware of the overall strategy under which the projects were operating.

Management provided responses to the internal audit recommendations, noting that in their view the IJB operates at a higher, and more strategic level, than it would need to do to fully implement the recommendations.

3.3 Governance and transparency

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

Green

- ▶ We have concluded that the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity.
- ▶ The IJB has continued to develop its approach to risk management, with a risk management strategy approved and the risk register considered regularly by the audit and risk committee.

Governance and transparency

The Board and officers of the IJB are responsible for establishing robust governance arrangements. This includes ensuring effective systems of internal control, including arrangements to safeguard public money, and compliance with applicable laws and regulations.

Elements of governance and transparency, and our assessment of the IJB's arrangements

- ▶ Can the IJB demonstrate that the governance arrangements are appropriate and operating effectively.
- ▶ Is there effective scrutiny, challenge and transparency on decision making and financial and performance reports?

We have reviewed board minutes and papers and found these to set out clearly the matters considered and discussed. Standing orders regulate how the business of the IJB is conducted. These are subject to review, and were recently updated in May 2018. A revised scheme of delegation was also recently considered by the IJB.

The audit and risk committee continues to operate with clearly defined terms of reference.

Standing orders, financial regulations and registers of interests are made available on the website to provide transparency as to operation of the IJB.

A risk management strategy and the accompanying risk register highlights the risks. Mitigating controls, residual risk and accompanying actions have been further developed and reported during the year to the IJB and also to the audit and risk committee, in its oversight role to monitor the IJBs risk management arrangements.

- ▶ Is the governance framework sound and are the governance arrangements effective?
- ▶ Is the Governance Assurance Statement complete and does it reflect key findings from audit, scrutiny and inspection?

Internal audit's opinion for the year was that overall, the IJB's governance arrangements, risk management and systems of internal control are adequate. Internal audit further reported that:

The IJB operates under good public sector practice governance arrangements through its Board and Committee meetings that support scrutiny and transparency of decisions made. There is good compliance by the MIJB of the requirements of the Act and the guidance through its Directions to Partners but improvements are required to clearly show how they link to the specific objectives stated in the IJB's Strategic Plan.

We reviewed the Annual Governance Statement within the financial statements against the required guidance. We were satisfied that it met the requirements and was consistent with both the governance framework and key findings from relevant audit activity.

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

Amber

- ▶ In response to the need to measure performance and progress against the IJB's Strategic Plan, we have concluded that the IJB has identified local improvement goals to measure its performance which are appropriate to the stated national goals. In addition sources of data and information have been identified and reported to the Board.
- ▶ The IJB needs to ensure that it produces its annual performance report in line with the timeline requirements of the Act.

Monitoring of performance and achievement of better outcomes for the resources available is key to the demonstration of value for money. Integration joint boards are required under the legislation to prepare an annual performance report by 31 July. The IJB considered its report for 2016/17 at its meeting on 24 August 2017, which set out how the IJB performed during the year, in particular in making progress against its Strategic Plan 2016-2020.

Internal audit undertook a review of performance reporting within the IJB as part of their work for 2017/18. The report noted that the IJB has received regular updates on the reporting of performance and development of appropriate indicators. During 2017, a suite of local indicators was agreed with the Scottish Government and targets were set to measure the IJB's performance in delivering services. Progress against these targets is reported to the IJB, initially quarterly, however from October 2017 this moved to reporting to every IJB meeting.

A 'high' grade recommendation was made by internal audit that development of the Annual Performance Report for the year to March 2018 should commence at an earlier stage than in 2017/18 in order that the report can be agreed by the IJB before the summer recess. This would enable publication in final form before the reporting deadline of 31 July 2018.

The Annual Performance Report for 2017/18 was only considered for approval by the IJB at its meeting on 23 August 2018. The report did not highlight that the deadline was not being met, however the Chief officer did inform both the IJB and the Scottish Government of the delay and reasons behind it.

Recommendation 2

The Care Inspectorate undertook both scheduled and unscheduled inspections across a range of IJB services during 2017/18. The Annual Performance Report provides full details of these inspections. Overall, 89% of care services graded 'good' or better in Care Inspectorate inspections, compared to the Midlothian figure of 85% in 2016/17. The Scottish average is reported as 85%.

Audit Scotland national performance audit

During the year, management supported completion of an auditor information request which is forming part of the key evidence for Audit Scotland's second Health and Social Care Integration report, along with other evidence such as auditors' annual audit reports and the audited accounts.

The overall aim of this audit is to examine the impact public bodies are having as they work together to integrate health and social care services in line with the Public Bodies (Joint Working) (Scotland) Act 2014.

In particular, the audit will consider the following questions:

- ▶ What impact is integration having and what are the barriers and enablers to this change?
- ▶ How effectively are integration authorities planning sustainable, preventative and community based services to improve outcomes for local people?
- ▶ How effectively are integration authorities (IAs), NHS boards and councils implementing the reform of health and social care integration?
- ▶ How effectively is the Scottish Government supporting the integration of health and social care and evaluating its impact?

The report is currently scheduled to publish in November 2018.

Appendices

- A - Code of Audit Practice: responsibilities
- B - Independence and audit quality
- C - Required communications with the audit and risk committee
- D - Action plan

In our Annual Audit Plan, we provided a summary of the responsibilities on audited bodies falling within the public sector audit framework, as set out in the Code of Audit Practice (the Code).

Responsibilities of audited bodies

Corporate governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation. ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures. ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority. ▶ maintaining proper accounting records. ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> ▶ such financial monitoring and reporting arrangements as may be specified ▶ compliance with any statutory financial requirements and achievement of financial targets ▶ balances and reserves, including strategies about levels and their future use ▶ how they plan to deal with uncertainty in the medium and longer term ▶ the impact of planned future policies and foreseeable developments on their financial position.
Best Value	<p>Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.</p> <p>Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p>

B. Independence and audit quality



Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the IJB.

What we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 29 March 2018.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the IJB consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit and risk committee on 6 September 2018.

Audit fees - payable to us in the respect of the year ended 31 March 2018

Component of fee:	2017/18	2016/17
Total agreed auditor remuneration	£16,470	£19,800
Audit Scotland fixed charges:		
Pooled costs	£1,460	£1,040
Performance audit and best value	£5,020	£3,790
Audit support costs	£1,050	£710
Total fee	£24,000	£25,340

Audit Quality

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2017 UK Transparency Report, volumes one and two, can be accessed on our website at www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Scotland – Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the IJB since appointment can be found at: www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf.

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	This Annual Audit Report We request written representation from you in respect of key matters arising during the course of our audit, and in accordance with auditing standards. A copy of this letter is provided for your consideration and signature at the time of approval of the financial statements.
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about the IJB's ability to continue for the 12 months from the date of our report.
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	This Annual Audit Report
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	This Annual Audit Report
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Annual Audit Report We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.

Required communication	Reference
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	<p>No significant matters have been identified.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p>Subsequent events</p> <ul style="list-style-type: none"> ▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements. 	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the IJB or management to action.

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The IJB is reporting financial pressures of £2.83 million on its overall budget for the year. Actions to bring the budget back into balance are to be developed in accordance with the requirements of the Integration Scheme, and are due to be reported back to the IJB for ongoing monitoring.	While the IJB has taken forward its financial strategy, significant work is still required to ensure that actions to address both the in-year position, as well as the forecast pressures over the next three years, are addressed. <i>Grade 2</i>	Management accepts there is work to be done in addition to the work that has already been delivered. The financial strategy and the financial plan are being developed and three reports have already gone to the IJB with a further paper going in September 2018. The financial strategy lays out the fundamental financial principle which is that the IJB will use the totality of its resources to deliver its Strategic Plan emphasising that a sustainable financial model is a key deliverable and then describes the transformational process. In 2018/19, actions have been taken which have significantly reduced the in-year financial risk. The IJB has a reserve and has indicated that, if required, additional resources can be used to support the in-year position.
2	The Annual Performance Report for 2017/18 was only considered for approval by the IJB at its meeting on 23 August 2018. The report did not highlight that the 31 July deadline was not being met.	Earlier planning is needed to ensure that the annual performance report for 2018/19 can be considered and approved at an IJB Board meeting in June, to allow publication by the deadline. <i>Grade 2</i>	The annual report relies on activity and measurement data from information provided by NSS. This information was not received in time to allow the draft annual report to be presented to the IJB at its June meeting. This was reported to the IJB by the Chief Officer and approval was also sought from the Scottish Government to reflect that the annual report would not be delivered by the deadline due to the issues noted above. Going forward for 2018/19 reporting arrangements are being made to ensure all data required for the annual report is received in time to report to the IJB in line with the 31 July deadline.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2018 Ernst & Young LLP. Published in the UK.
All Rights Reserved.

ey.com

Midlothian Integration Joint Board

Audit and Risk Committee



Thursday 6 September 2018 at 2.00 pm

Annual Accounts – 2017/18

Item number:	5.3
---------------------	------------

Executive summary

As a statutory body, the IJB is required to produce a set of annual accounts at the end of its financial year (31 March). These accounts are then reviewed by the IJB's external auditors who will then report their opinion of the IJB's annual accounts to the IJB's Audit and Risk Committee. This report having been agreed by the committee and presuming no outstanding issues the committee will recommend the annual accounts to the IJB.

The accounts will then be signed by the Chair of the IJB, the Chief Officer of the IJB and the Chief Finance Officer of the IJB as appropriate

Board members are asked to:

- 1. Note the external auditors report on the IJB's annual accounts*
- 2. Recommend the annual accounts to the IJB.*

Annual Accounts – 2017/18

1. Purpose

The IJB has prepared annual accounts for the financial year 2017/18, these have now been reviewed by the IJB's Independent Auditors. Their report has been presented to the committee at a previous agenda item.

2. Recommendations

The Audit and Risk Committee is asked to :-

- Note the external auditors report on the IJB's annual accounts
- Recommend the annual accounts to the IJB.

3. Background and main report

- 3.1 As a body governed by section 110 of the Local Government Scotland Act (1973) and the appropriate regulations and subsequent Acts, the IJB must prepare a set of Annual Accounts. The accounts must fulfil the requirements of the Act and the regulations and must give a true and fair view of the IJB's financial position.
- 3.2 The accounts must then be reviewed by an Independent Auditor who will report their findings to this committee which will allow the auditors to bring any matters to the committee's attention. If there are no issues arising from the auditors' report then the committee can recommend acceptance and authorisation of the annual accounts to the IJB.
- 3.3 Having recommended the Annual Accounts to the IJB, these will be formally signed at the meeting of the IJB on 13 September 2018.
- 3.4 The annual accounts (unsigned) are attached to this report.

4. Policy Implications

- 4.1 There are no further policy implications arising from any decisions made on this report.

5. Equalities Implications

- 5.1 There are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper.

6. Resource Implications

- 6.1 There are no further resource implications arising from this paper.

7 Risks

- 7.1 The issue raised by this report are already identified in the IJB's risk register

8 Involving People

- 8.1 The IJB's annual accounts will be published on the IJB's website.

9 Background Papers

- 9.1 None.

AUTHOR'S NAME	David King
DESIGNATION	Chief Finance officer
CONTACT INFO	David.king@nhslothian.scot.nhs.uk
DATE	August 2018

Appendices:- 2017/18 Annual Accounts for Midlothian IJB



Midlothian Integration Joint Board Audited Annual Accounts 2017/18

The Audited Annual Accounts of Midlothian Integration Joint Board for the period from 1 April 2017 to 31 March 2018, prepared pursuant to Section 105 of the Local Government (Scotland) Act 1973 and in accordance with the terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and Service Reporting Code of Practice.

CONTENTS

Management Commentary	3
Statement of Responsibilities	14
Remuneration Report.....	16
Annual Governance Statement	20
Independent Auditor's Report.....	25
Comprehensive Income and Expenditure Statement.....	29
Movement in Reserves Statement	30
Balance Sheet.....	31
Notes to the Financial Statements.....	32
1. Significant Accounting Policies.....	32
2. Critical Judgements and Estimation Uncertainty	34
3. Events After the Reporting Period	35
4. Expenditure and Funding Analysis	35
5. Related Party Transactions.....	37
6. VAT	37

Audit Arrangements

Under arrangement approved by the Accounts Commission of Local Authority Accounts in Scotland, the auditor with responsibility for the audit of the accounts of Midlothian Integration Joint Board for the period 1 April 2017 to 31 March 2018 is Ernst and Young LLP, Atria One, 144 Morrison Street, Edinburgh EH3 8EB

Management Commentary

Introduction

The management commentary provides an overview of the key messages relating to the role, remit, members, objectives and the strategy of the Midlothian Integration Joint Board (the IJB). It describes the financial performance for the financial year ended 31 March 2018 and considers those issues and risks which may impact upon the IJB's financial position in the future.

The Role and Remit of the IJB

Midlothian IJB is an Integration Authority set up under the Public Bodies (Joint Working) Act (2014). It is a 'body corporate', that is a separate legal entity. The IJB is constituted through its Integration Scheme which was prepared by Midlothian Council and NHS Lothian and presented to Scottish Ministers in March 2015. The Integration Scheme was approved by the Scottish Parliament in June 2015 and the first meeting of the IJB took place on 20 August 2015.

The IJB's role and responsibility is to plan for the delivery of the functions that have been delegated to the IJB by Midlothian Council and NHS Lothian. These functions are:-

- Adult Social Care
- Primary Care Services (GP Practices, Community Dentists, Community Pharmacies and Community Opticians)
- Mental Health Services
- Physical and Learning Disabilities Services
- Community Health Services
- Community Hospital Services
- Unscheduled Care Services (services that are generally delivered from the Royal Infirmary of Edinburgh, the Western General Hospital and St. John's Hospital).

The IJB assumed formal responsibility for these functions in April 2016 including the budgets for the delivery of these functions. The IJB published its Strategic Plan for these functions covering the period from April 2016 to March 2019 in March 2016. The IJB also publishes an Annual Delivery plan, the plan for 2017/18 being agreed by the IJB at its March 2017 meeting.

Members of the IJB at 31 March 2018

The IJB met nine times in 2017/18. There have been a number of changes to the membership of the IJB since the accounts for 2016/17 were published, both as a result of the local elections in May 2017 and other changes.

The members of the IJB at 31 March 2018 :-

Member	Nominated/Appointed by	Role
Derek Milligan	Nominated by Midlothian Council	Voting Member, Vice Chair
Catherine Johnstone	Nominated by Midlothian Council	Voting Member
Jim Muirhead	Nominated by Midlothian Council	Voting Member, Chair of Audit and Risk Committee
Pauline Winchester	Nominated by Midlothian Council	Voting Member
Alex Joyce	Nominated by NHS Lothian	Voting Member
Tracey Gilles	Nominated by NHS Lothian	Voting Member
Alison McCallum	Nominated by NHS Lothian	Voting Member
Allister Short (since November 2017)	Appointed by the IJB	Chief Officer
David King	Appointed by the IJB	Chief Finance Officer
Alison White	Nominated by Midlothian Council	Chief Social Worker
Fiona Huffer	Appointed by the IJB	Allied Health Professionals lead
Caroline Miles	Nominated by NHS Lothian	Chief Nurse
Hamish Reid	Nominated by NHS Lothian	General Practitioner
Patsy Eccles	Appointed by the IJB	NHS Staff Representative
Aileen Currie	Appointed by the IJB	MLC Staff Side Representative
Pam Russell	Appointed by the IJB	User/Carer representative
Ewan Aitken	Appointed by the IJB	Voluntary Sector Representative
Keith Chapman	Appointed by the IJB	User Representative

Note - The IJB was chaired by John Oates (nominated by NHS Lothian) who stood down in February 2017 and was replaced at the IJB's meeting of 3 May 2018 by Angus McCann (nominated by NHS Lothian). The Chief Officer of the IJB was Eibhlin McHugh until her retirement in October 2017.

The IJB's Operations for the Year

2017/18 was the second operational year for the IJB. The ambitions for the financial year were laid out in the IJB's 2017/18 annual delivery plan, these were:-

- Increasing the capacity and managing the demands upon Primary Care
- Reducing the use of acute hospitals particularly in relation to delayed discharges and preventable admissions
- Improving mental health wellbeing given the high levels of prescribed medication and the links to offending and substance misuse
- Reducing the cost of Learning Disability services
- Strengthening the multi-agency approach to Health Inequalities.

Considerable progress has been made on these ambitions, which have been grouped together in themes as follows :-

- Investing in what works well e.g. Wellbeing Service, Access Point
- Supporting primary care - new GP practice at Newtongrange, new GP premises at Loanhead.
- Investing in innovation - new roles such as physiotherapists and pharmacists in GP practices

The IJB publishes an Annual Performance report which provides further details on the activity of the IJB and this report is available on the IJB's website.

The IJB's Position at 31 March 2018

Summary

For the year ended 31 March 2018, the IJB was underspent. That is the costs incurred in delivering the IJB's functions by Midlothian Council and NHS Lothian are less than the income that the IJB received from NHS Lothian and Midlothian Council.

In summary, the position is as follows:-

	Income	Expenditure	Surplus
	£000's	£000's	£000's
Health Services	99,232	99,115	117
Social Care Services	38,806	38,023	783
Total	138,038	137,138	900

This surplus has been used to create a reserve which is described further below.

Although the IJB has a range of functions delegated to it, these are delivered through a range of services provided by the partners (Midlothian Council and NHS Lothian) and these are further described below in the analysis of the Income and Expenditure position.

Analysis of the Financial Statements

The financial statements are all presented on a net basis.

Income and Expenditure

The following analysis sets out the expenditure incurred by the IJB's partners on areas delegated to them by the IJB. This information is provided to the IJB throughout the year to enable them to monitor the spend on delegated functions. The total expenditure incurred by the partners is met by the payments made by the IJB in respect of delegated functions

	Budget Health £000's	Budget Social Care £000's	Expenditure Health £000's	Expenditure Social Care £000's	Variance £000's	Note
Direct Midlothian Services						
Community AHPS	1,180		980		200	
Community Hospitals	4,800		5,034		(234)	
District Nursing	2,554		2,535		19	
General Medical Services	14,025		13,901		124	
Health Visiting	1,427		1,475		(48)	
Mental Health	2,029		2,045		(16)	
Other	10,568		10,116		452	1
Prescribing	18,257		18,408		(151)	
Resource Transfer	4,779		4,776		3	2
Older People		16,366		14,144	2,222	
Learning Disabilities		11,534		13,155	(1,621)	
Mental Health		842		755	87	
Physical Disabilities		3,403		3,839	(436)	
Assessment and Care						
Management		3,415		3,120	295	
Other		3,245		3,010	235	3
Midlothian Share of pan-Lothian						
Set Aside	18,154		18,572		(418)	4
Mental Health	2,127		2,106		21	
Learning Disabilities	1,503		1,607		(104)	
GP Out of Hours	1,011		1,011		0	
Rehabilitation	743		663		80	
Sexual Health	552		551		1	
Psychology	552		551		1	
Substance Misuse	937		951		(14)	
Allied Health Professions	1,217		1,190		27	
Oral Health	1,617		1,561		56	
Other	2,496		2,377		119	
Dental	4,681		4,681		0	5
Ophthalmology	1,623		1,623		0	5
Pharmacy	2,401		2,401		0	5
	99,233	38,805	99,115	38,023	900	

Notes –

1. Other includes £5.1m for the Social Care fund. These are resources which the Scottish Government has directed to the IJB through NHS Lothian and are shown as health – however, these funds are then transferred to the Council and used to support the delivery of social care services

2. Resource Transfer are funds for specific purposes which are transferred from health to social care. However, these remain part of the health budget and are reported there.
3. Other includes care for non-specific groups, substance misuse services and other management and performance costs. This also includes £243,000 of funds which have been taken to the IJB's reserve to be carried forward for specific projects. This is detailed in the discussion on reserves below.
4. Set Aside are the budgets for those functions delegated to the IJB which are managed by the Acute Services management teams within NHS Lothian. These services are :-
 - Accident and Emergency
 - Cardiology
 - Diabetes
 - Endocrinology
 - Gastroenterology
 - General Medicine
 - Geriatric Medicine
 - Rehabilitation Medicine
 - Respiratory Medicine
 - Various ancillary support services for the above

These services are delivered at the Royal Infirmary of Edinburgh, the Western General Hospital and St. John's Hospital.

5. In the Health system, expenditure to support the delivery of community dentistry, community opticians and community pharmacists is termed as 'non cash limited' (NCL) but is clearly part of the delivery of primary care services and these functions are delegated to the IJB. However, being NCL there is no budget as such but any expenditure incurred is supported in its entirety by the Scottish Government. The NCL values are not part of the budget setting process, there being no budget, but NHS Lothian has matched the NCL expenditure with income to cover this expenditure.

The charges (shown as expenditure above) made by Midlothian Council to the IJB are the net direct costs incurred in the delivery of social care services in Midlothian. The charges from NHS Lothian are based on the health budget setting model as agreed by the IJB. That is, charges for the core services (those services specifically for and delivered by the Midlothian partnership) are based on the net direct actual costs incurred in Midlothian. However, charges for hosted and set aside services (those services which are not generally managed by the Midlothian Partnership and are delivered on a pan-Lothian basis) are based on the total actual costs for these service shared across four IJBs per the budget setting model. The IJB share of the total actual costs incurred in 2017/18 for hosted services is 10% and, generally, 10% of the Lothian element of the set aside budgets and the non-cash limited budgets.

Overview of the 2017/18 position

From the above table, it can be seen that there were a range of financial pressures identified.

Direct Midlothian Services

Within the health budgets, although there were operational overspends within Community Hospitals and GP Prescribing, these were offset by underspends in GMS and slippage (that is some programmes starting later in the year than planned and thus generating an underspend) within the system.

Within the social care budgets the pressures at the year-end were a significant overspend within adult services, specifically those for clients with Learning Disabilities and Physical Disabilities. This pressure was offset by underspend in services for older people, although there are underlying pressures in some specific services including MERRIT (Midlothian Emergency Rapid Response Intervention Team) and care at home. It should be noted that further developments are taking place within the operational budget setting between social care budgets for Adults and budgets for Older People. An element of the variances in the social care budgets above (for example the significant underspend in Older People services) can be attributed to the budget setting model and this will be further revised in 2018/19.

That said, overall the social care budget has been underpinned in 2017/18 by c.£1.0m made up of additional funding made available to the IJB by Midlothian Council carried forward from 2016/17 (see below) and slippage from Social Care and Integrated Care funds.

Midlothian Share of pan-Lothian services

The hosted position shows an overspend within the Learning Disabilities services but being offset with underspends in community dental (Oral Health), rehabilitation services and the UNPACS (Other) budget (this is the budget used to support Lothian patients cared for by services outwith NHS Lothian).

The significant overspend within the health budgets is within set aside the main pressures being :-

- Junior Medical – driven by additional staffing requested to cover rotas for sickness, maternity and vacancies – causing an over-establishment against funded levels. In addition there were significant excess banding payments for non-compliant rotas. New tighter controls regarding authorisation for additional staffing and reviewing rotas before issues arise are now in place to reduce pressure in 2018/19
- Gastroenterology - significant drug pressure reported on Adalimumab and Aflibercept driving costs as well as overall higher growth than previous year
- General Medicine – Pressure driven by staffing issues (significant at St John's Hospital– where recruitment is difficult) and ongoing bed pressures

- A&E – recruitment issues resulting in additional costs of locums/agency to cover and make safe staffing rotas – especially problematic at St John’s Hospital.

Reserves

The IJB has reserves at the end of 2017/18 of £900,000. Although the IJB did not have reserves in March 2017, Midlothian Council had carried forward c.£1.2m to make available to the IJB in 2017/18 in addition to the budgetary settlement for the financial year 2017/18.

This has meant that, in reality, there has been a movement in reserves although this is not clear from the financial statement. This can be described as follows:-

	2017/18 Opening Balance	2017/18 Expenditure in year	Balance Remaining
Committed Project Funds	£000's	£000's	£000's
SG Self directed support	316	0	316
MELDAP	278	132	146
SG Funding TEC	85	77	8
SG (via NHS) Dementia	77		77
7 Pillars (MH)	27		27
Criminal Justice	39		39
Other	73	34	39
	<u>895</u>	<u>243</u>	
2016/17 c/fwd funding			
Social Care Fund	200	0	200
Integrated Care Fund	34	0	34
Resource Transfer	51	0	51
Total	<u>1180</u>	<u>243</u>	

The IJB has agreed a proposal to use its reserves in 2018/19 as follows:-

- Reserves earmarked for specific projects will be used to support these projects – for example the continuation of substance misuse services (using the MELDAP reserve) and the further development of the use of Technology Delivered Care (using the TEC reserve)
- Transformation Programme – a programme of work has been developed to further support the transformation agenda which will include a Programme Manager to work with acute and other service staff to deliver agreed outcomes The initial focus will be on progressing the Mental Health plan and on work to support the IJB’s ambition to reduce its bed use in the Acute hospital sites, particularly in relation to the respiratory pathway. This development will require investment as part of a ‘spend to save’ approach
- Waiting Times – the IJB has a number of community services that are reporting significant waiting times (Psychological Therapies, Substance Misuse, occupational therapy assessment), and projects will be developed to reduce these waiting times and to ensure that the service is sustainable thereafter

- Delayed Discharge – as previously reported to the IJB, there continues to be a need to support timely discharge from hospital and resource will be allocated to support the implementation of the delayed discharge action plan
- The residual element of the general reserve will be used as required to support in-year financial pressures, recognising the continuing underlying and significant overspend in social care.

The IJB's Strategy and Business Model

Our Vision

The Midlothian Health and Social Care Partnership's vision is that people will lead longer and healthier lives by getting the right advice, care, and support, in the right place, at the right time.

The IJB aims to achieve this ambitious vision by changing the emphasis of services, placing more importance and a greater proportion of our resources on the approaches described below :-

Key Changes in Our Use of Resources

Shifting Focus



The IJB's remit and goals are laid out in the IJB's Strategic Plan. These are in line with the Scottish Government's national outcomes and will be delivered through:-

1. Prioritising the Allocation of Resources

The IJB will make decisions by reviewing the resources available and prioritising them to achieve the agreed outcomes. Guidance on this process has been issued by the Scottish Government and the themes laid out in this guidance are those that flow through the IJB's strategies. These themes are based on a fundamental review of the current use of resources in order to support the redesign of the overall health and social care system. The move of resources should reflect the key strategic aims of the IJB. The key principles guiding this movement are outlined in this report, along with some specific plans which are being developed to achieve the required shifts in expenditure:

2. Making More Efficient use of Resources

There are immediate pressures on the IJB which require action to bring the expenditure in line with the monies now being made available by the Council and NHS Lothian:-

Social Care: The *Realistic Care Realistic Expectations* Programme is intended to identify significant savings through more efficient and more equitable ways of providing social care services.

Prescribing: In response to major pressures upon the local prescribing budget GPs and the Pharmacy Service are implementing a series of changes to reduce expenditure.

Service Integration: The social care and health teams within the Partnership are being joined together into one overall team with a single management structure. This will generate operational synergies and stop 'double doing' – for example multiple assessments etc.

3. Public Engagement

The emerging financial challenges facing the partners, and therefore the budgets likely to be available to the IJB, require a concerted programme of public engagement. Transforming health and care services will only succeed if the people of Midlothian understand the changes being considered are able to influence these and are prepared to support them. A Communication and Engagement Plan in relation to Realistic Care has been developed and is now being implemented.

The IJB will continue the process of full integration of the service delivery teams, not just between NHS and Council delivered services but also moving pan-Lothian services into the locally managed and locally delivered services. This will generate operational and managerial synergies and should reduce costs, however this will be a step in the redesign of services into the establishment of multi-disciplinary teams delivering care in a community based setting.

Key Risks and Uncertainties

The challenge for the IJB is to transform the delivery of its delegated functions whilst supporting the delivery of financial balance with an (in real terms) reduction in the financial resources available. There remain a series of uncertainties:-

1. It remains difficult for the partners to recruit elements of the workforce to deliver the IJB's functions, e.g. GPs, District Nurses and Care workers.
2. The increasing population in Midlothian remains a challenge which may exacerbate the staffing pressures above.
3. The financial position for the UK and Scotland remains uncertain and this will provide a challenge to the amount of financial resources available to the IJB.

Angus McCann
IJB Chair

Allister Short
Chief Officer

David King
Chief Finance Officer

Statement of Responsibilities

Responsibilities of the Integration Joint Board

The Integration Joint Board is required to:-

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the board has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the chief finance officer.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts.

I confirm that these Annual Accounts were approved for signature at a meeting of the Audit & Risk Committee on 6 September 2018.

Signed on behalf of Midlothian Integration Joint Board.

Angus McCann

Chair

Responsibilities of the Chief Finance Officer

The chief finance officer is responsible for the preparation of the IJB's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts, the chief finance officer has:-

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation
- Complied with the local authority Code (in so far as it is compatible with legislation).

The chief finance officer has also:-

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Midlothian Integration Joint Board as at 31 March 2018 and the transactions for the year then ended.

David King
Chief Finance Officer

Remuneration Report

Introduction

This Remuneration Report is provided in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It discloses information relating to the remuneration and pension benefits of specified IJB members and staff.

The information in the tables below is subject to external audit. The other sections of this report will be reviewed by Ernst & Young LLP and any apparent material inconsistencies with the audited financial statements will be considered as part of their audit report.

Remuneration: IJB Chair and Vice Chair

The voting members of the IJB are appointed through nomination by Midlothian Council and NHS Lothian Board. Nomination of the IJB Chair and Vice Chair post holders alternates between a Councillor and a Health Board representative.

The IJB does not provide any additional remuneration to the Chair, Vice Chair or any other board members relating to their role on the IJB. The IJB does not reimburse the relevant partner organisations for any voting board member costs borne by the partner. Neither the Chair nor the Vice Chair appointments had any taxable expenses paid by the IJB in 2017/18.

The IJB does not have responsibilities, either in the current year or in future years, for funding any pension entitlements of voting IJB members. Therefore no pension rights disclosures are provided for the Chair or Vice Chair.

NHS Lothian remunerates its non-executive members on a notional day basis. Those non-executive members of the NHS Lothian Board who are also Chairs or Vice Chairs of IJBs are given an additional notional day's remuneration in recognition of the additional time required to undertake those roles. John Oates, as a non-executive member of NHS Lothian Board who was also the Chair of Midlothian IJB has received an additional notional day's remuneration specifically for his role as Vice Chair of the IJB in 2017/18. This remuneration is £8,251 per annum.

Remuneration: Officers of the IJB

The IJB does not directly employ any staff; however specific post-holding officers are non-voting members of the Board.

Chief Officer

Under section 10 of the Public Bodies (Joint Working) (Scotland) Act 2014 a Chief Officer for the IJB has to be appointed and the employing partner has to formally second the officer to the IJB. The employment contract for the Chief Officer will adhere to the legislative and regulatory framework of the employing partner organisation. The remuneration terms of the Chief Officer's employment are approved by the IJB.

The Chief Officer of the IJB is Allister Short who is also the Director of Health and Social Care for Midlothian Council and the Joint Director of the Midlothian Partnership. It has been agreed, and this was disclosed in the accounts for 2016/17, that 50% of his total remuneration is to be shown in the accounts of the IJB as his remuneration as the Chief Officer of the IJB.

Chief Finance Officer

Although the costs of the Chief Finance Officer are not included in the charges made to the IJB by either partner, given the S95 role of the Chief Finance Officer and in the interests of transparency, the remuneration of the Chief Finance officer is included below. The Chief Finance officer is David King. The Chief Finance Officer is employed by NHS Lothian and has three roles – the IJB's Chief Finance Officer, the Chief Finance Officer of East Lothian IJB and an operational role in the NHS Lothian finance team. On that basis, one third of the total remuneration is shown below.

Other Officers

No other staff are appointed by the IJB under a similar legal regime. Other non-voting board members who meet the criteria for disclosure are included in the disclosures below.

Total 2016/17 £	Senior Employees	Salary, Fees & Allowances 2017/18 £	Total 2017/18 £
49,668	Eibhlin McHugh (to October 2017)	29,263	29,263
n/a	Allister Short (from November 2017)	16,816	16,816
26,802	David King	27,069	27,069

Allister Short was appointed in November 2017, his costs above are therefore 5/12th of the annual costs.

In respect of officers' pension benefits the statutory liability for any future contributions to be made rests with the relevant employing partner organisation. On this basis there is no pensions liability reflected on the IJB balance sheet for the Chief Officer or any other officers.

The IJB however has responsibility for funding the employer contributions for the current year in respect of the officer time spent on fulfilling the responsibilities of their role on the IJB. The following tables show the IJB's funding during the year to support officers' pension benefits. The table below also shows the total value of accrued pension benefits which may include benefits earned in other employment positions and from each officer's own contributions.

	In-year pension contributions		Accrued pension benefits			
	For year	For year	As at 31 March 2018		Difference from	
	to 2018	to 2017			31-Mar-17	
	£	£	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
Allister Short	10,864	9,424	16	34	4	5
David King	11,127	11,017	35	106	1	4
Eibhlin McHugh	11,721	19,894	44	90	1	0

Disclosure by Pay Bands

As required by the regulations, the following table shows the number of persons whose remuneration for the year was £50,000 or above, in bands of £5,000.

Number of Employees in Band 2016/17	Remuneration Band	Number of Employees in Band 2017/18
0	£50,000 - £54,999	0
0	£55,000 - £59,999	0
0	£60,000 - £65,000	0

Exit Packages

The IJB did not support nor did it direct to be supported by its partners, any exit packages during 2017/18.

Angus McCann
IJB Chair

Allister Short
Chief Officer

Annual Governance Statement

Purpose

The annual governance statement lays out how Midlothian Integration Joint Board (MIJB) complies with its Local Code of Corporate Governance and sets out the framework within which the IJB has put in place proper financial and governance arrangements for the conduct of its business affairs. This will facilitate the effective exercise of its functions, ensuring that appropriate arrangements are in place for the management of risk and that appropriate systems of internal control are in place.

Scope of Responsibility

MIJB is responsible for ensuring that its business is conducted in accordance with the law and proper standards. This is to allow the public funds at its disposal to be safeguarded and used efficiently and effectively in pursuit of best value.

Board members, including the Chief Officer and Chief Finance Officer, are responsible for the governance of the business affairs of MIJB. This includes: setting the strategic direction, vision, culture and values of the MIJB and establishing appropriate and cost effective systems, processes and internal controls to allow the strategic objectives to be delivered.

In order to achieve this, the MIJB has developed a Local Code of Corporate Governance based on the CIPFA/SOLACE Framework and Guidance on 'Delivering Good Governance in Local Government'.

The Local Code of Corporate Governance details 7 core principles which are supported by 20 sub-principles and 91 behaviours and actions that demonstrate good Governance. Elements of good governance included are:-

- Ensuring Board and Committee members behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the MIJB
- Creating the conditions to ensure that all MIJB members and the MIJB's partners (Midlothian Council and NHS Lothian) are able to fulfil their responsibilities in accordance with legislative and regulatory requirements
- Having a clear vision, which is an agreed formal statement of the MIJB's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the MIJB's overall strategy, planning and other decisions
- Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources and to ensure best value is achieved
- Evaluating and monitoring risk management and internal control on a regular basis
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the MIJB's Chief Internal Auditor

- Ensuring an audit committee, which is independent of the Board and accountable to the MIJB, provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment and that its recommendations are listened to and acted upon
- Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on the assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement)
- Ensuring that recommendations for corrective action made by the external auditor are acted upon.

Midlothian IJB's financial management arrangements conform to the requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government. The Chief Finance Officer has overall responsibility for the MIJB's financial arrangements and is professionally qualified and suitably experienced.

The MIJB is responsible for conducting each financial year, a review of the effectiveness of its governance framework, including risk management and the systems for internal control and financial control. The review of the effectiveness of the MIJB's governance framework is informed by :-

- The work of the MIJB Board, the Strategic Planning Committee, and the Audit and Risk Committee
- The annual assurances that are provided by the MIJB Chief Officer and the Chief Finance Officer
- An annual review, by the MIJB Chief Internal Auditor, of compliance with the MIJB's Local Code of Corporate Governance
- The MIJB Chief Internal Auditor's annual assurance report which is based on internal audit work completed during the year
- Reports from the MIJB's external auditor
- Reports from other external review bodies, agencies and inspectorates.

The key governance arrangements and controls are set out in the Local Code of Corporate Governance. Each year, the MIJB Chief Internal Auditor samples elements in the Local Code to determine whether these are working effectively and that, therefore, the governance framework is working effectively.

In addition, the MIJB Chief Officer and the Chief Finance Officer are required to undertake an annual self assessment of their area of responsibility where key elements of governance are examined.

Neither of these assessments highlighted any issues that would impact on the level of effectiveness of the MIJB's governance framework.

The Annual Governance Statement has also been informed by the work undertaken by the MIJB Chief Internal Auditor who, following the requirements of the Local Authority Accounts (Scotland) Regulations 2014, conducted an annual review of the effectiveness of the MIJB's system of internal control. The MIJB Chief Internal Auditor concluded that based on the work undertaken in 2017/18 that overall, the MIJB's framework of governance, risk management and control is adequate but noted areas for further development in 2018/19. These improvements are reflected below.

The MIJB Chief Internal Auditor has responsibility for the provision of Internal Audit services to the MIJB and reports functionally to the MIJB Audit and Risk Committee to allow appropriate independence. The MIJB Chief Internal Auditor is professionally qualified and suitably experienced to lead and direct the Internal Audit team.

Statutory and other Compliance

The Midlothian IJB was established by parliamentary order in June 2015 following approval of the Midlothian Integration Scheme by the Scottish Ministers. It is a body corporate, a legal entity in its own right but it relies on support from officers employed by Midlothian Council and NHS Lothian in relation to the conduct of its business. It is subject to the Public Bodies (Joint Working) (Scotland) Act 2014 and secondary legislation directly relating to the integration of health and social care services, and indirectly in relation to regulatory regimes affecting devolved public bodies in Scotland.

Midlothian IJB ('the Board') has secured compliance with statutory and other requirements, as follows:-

- Membership - its minimum membership (voting and non-voting) is set by statutory instrument, with the power to appoint additional members as it sees fit. The Board's membership is fully populated
- Standing Orders - the Board is required by statutory regulations to have Standing Orders to regulate its business, with some aspects stipulated in those regulations. Standing Orders were adopted at its inaugural meeting. They comply with statutory requirements
- Committees - the Board has established an Audit and Risk Committee with a detailed remit and powers and with the membership clearly defined. This complies with statutory requirements and with the Board's Standing Orders
- Meetings - the Standing Orders adopted by the Board allow the public to have prior access to meeting agendas and reports, and to attend meetings of the Board and its committees, except in clearly defined and limited circumstances
- Strategic Plan - the Board established its Strategic Planning Committee as required by legislation, with Terms of Reference approved by the Board covering membership, meetings and meetings procedures
- Officers - the Board appointed a Chief Officer and a Chief Finance Officer as required by the legislation. A Chief Internal Auditor has been appointed to carry out the Board's internal audit requirements and assist its Audit and Risk Committee
- Finance - the Board received reports in relation to financial assurance prior to the setting of budgets for the functions delegated by Midlothian Council and NHS Lothian, and adopted Financial Regulations in relation to the conduct of its financial affairs, the

maintenance of its accounting and financial records, and its annual accounts and financial statements

- Code of Conduct - pending finalisation of arrangements for a Code of Conduct for Members, the Board adopted an Interim Code based on the existing Model Code for Members of Devolved Public Bodies in Scotland, and members have registered their interests according to that Code. The Scottish Government approved the MIJB's Code of Conduct on 1 June 2016.

Action Plan

A number of areas of governance improvements were highlighted in the MIJB Chief Internal Auditor's Annual Assurance Report and these are summarised below along with the proposed actions. This is in addition to work undertaken over the past two years to improve elements of internal control, risk management and governance reported in 2015/16 and 2016/17.

1. MIJB's Directions and its Strategic Plan.

The MIJB will continue to develop this work to clearly show how the directions to partners link to the specific objectives stated in the MIJB's Strategic Plan.

2. Performance Management.

The MIJB will continue to update its performance monitoring and reporting arrangements

3. Local Code of Corporate Governance.

The MIJB will update its Local Code of Corporate Governance in line with the CIPFA/SOLACE (2016) Framework and further develop its Board's understanding of the Local Code and reflect this in future in the content and format of the Annual Governance Statement

4. Risk Management

The MIJB will continue to review and to keep updated its strategic risk register and report on a regular basis both to the Board and its Audit and Risk Committee.

5. Workforce Plan.

The IJB will continue to develop its workforce plan through a process of engagement with staff and its partners.

On the basis of the MIJB's assurance system, and the elements of governance at its disposal, we are satisfied that overall Midlothian IJB's systems of internal control, risk management and governance arrangements are of a satisfactory standard. We are aware of areas where improvements are required and steps will be taken in the forthcoming year

to address these areas, allowing the MIJB to enhance its corporate governance arrangements and seek continuous improvement.

Angus McCann
IJB Chair

Allister Short
Chief Officer

Independent Auditor's Report

Independent auditor's report to the members of Midlothian Integration Joint Board and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Midlothian Integration Joint Board (the "IJB") for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the IJB as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the IJB in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent auditor's report to the members of Midlothian Integration Joint Board and the Accounts Commission (continued)

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the IJB's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Chief Finance Officer and IJB's Audit and Risk Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the IJB's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The IJB's Audit and Risk Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Midlothian Integration Joint Board and the Accounts Commission (continued)

Other information in the annual accounts

The Chief Finance Officer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or

Independent auditor's report to the members of Midlothian Integration Joint Board and the Accounts Commission (continued)

- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Stephen Reid, *for and on behalf of Ernst & Young LLP*

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

Comprehensive Income and Expenditure Statement

This statement shows the cost of providing services for the year according to accepted accounting practices. Where the impact on the General Fund is amended by statutory adjustments, this is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Midlothian IJB Comprehensive Income and Expenditure Statement

2016-17 Net Expenditure £000s		2017-18 Net Expenditure £000s
96,250	Health Care Services - NHS Lothian	99,115
38,240	Social Care Services - Midlothian Council	38,023
134,490	Cost of Services	137,138
-134,490	Taxation and Non-Specific Grant Income	-138,038
-	Surplus on Provision of Services	-900

The Integration scheme lays out that the partners will provide corporate and other support to the IJB as required and will not charge for these services. These costs are not, therefore, included above.

Movement in Reserves Statement

Movements in Reserves During 2017/18	General Fund Balance	Unusable Reserves: Employee Statutory Adjustment Account	Total Reserves
	£000's	£000's	£000's
Opening Balance at 31 March 2017	0	0	0
Total Comprehensive Income and Expenditure	900	0	900
Increase or Decrease in 2017/18	900	0	900
Closing Balance at 31 March 2018	900	0	900

The IJB had no reserves in 2016/17 and hence comparative information has not been presented.

Balance Sheet

The Balance Sheet shows the value of the IJB's assets and liabilities as at the balance sheet date. The net assets (assets less liabilities) of the IJB are matched by the reserves held by the IJB.

Midlothian IJB Balance Sheet

31 March 2017 £000s		31 March 2018 £000s
	Current Assets	
-	Debtors	900
-	Creditors: amounts falling due within one year	000
-	Total assets less current liabilities	900
	Capital and Reserves	
-	Reserves (see note 4)	900
-	Total Reserves	900

The Audited accounts were authorised for issue on 14th September 2018

David King
Chief Finance Officer

Notes to the Financial Statements

1. Significant Accounting Policies

General Principles

The Financial Statements summarise the IJB's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018.

The IJB was established under the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014 and is a Section 106 body as defined in the Local Government (Scotland) Act 1973.

The Financial Statements are therefore prepared in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS), unless legislation or statutory guidance requires different treatment.

The accounts are prepared on a going concern basis, which assumes that the IJB will continue in operational existence for the foreseeable future. The historical cost convention has been adopted.

Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when settlement in cash occurs. In particular:

- Expenditure is recognised when goods or services are received and their benefits are used by the IJB.
- Income is recognised when the IJB has a right to the income, for instance by meeting any terms and conditions required to earn the income, and receipt of the income is probable.
- Where income and expenditure have been recognised but settlement in cash has not taken place, a debtor or creditor is recorded in the Balance Sheet.
- Where debts may not be received, the balance of debtors is written down.

Funding

The IJB is wholly funded through funding contributions from the statutory funding partners, Midlothian Council and NHS Lothian. Expenditure is incurred in the form of net charges by the partners to the IJB.

Cash and Cash Equivalents

The IJB does not operate a bank account or hold cash. Transactions are settled on behalf of the IJB by the funding partners. Consequently the IJB does not present a 'Cash and Cash Equivalent' figure on the balance sheet.

Employee Benefits

The IJB does not directly employ staff. Staff are formally employed by the partners who retain the liability for pension benefits payable in the future. The IJB therefore does not present a Pensions Liability on its Balance Sheet.

The IJB has a legal responsibility to appoint a Chief Officer. More details on the arrangements are provided in the Remuneration Report.

Provisions, Contingent Liabilities and Contingent Assets

Provisions are liabilities of uncertain timing or amount. A provision is recognised as a liability on the balance sheet when there is an obligation as at 31 March 2018 due to a past event; settlement of the obligation is probable; and a reliable estimate of the amount can be made. Recognition of a provision will result in expenditure being charged to the Comprehensive Income and Expenditure Statement and will normally be a charge to the General Fund.

A contingent liability is a possible liability arising from events on or before 31 March, whose existence will only be confirmed by later events. A provision that cannot be reasonably estimated, or where settlement is not probable, is treated as a contingent liability. A contingent liability is not recognised in the IJB's Balance Sheet, but is disclosed in a note where it is material.

A contingent asset is a possible asset arising from events on or before 31 March 2018, whose existence will only be confirmed by later events. A contingent asset is not recognised in the IJB's Balance Sheet, but is disclosed in a note only if it is probable to arise and can be reliably measured.

The IJB has none of the above.

Reserves

The IJB's reserves are classified as either Usable or Unusable Reserves.

The IJB's only Usable Reserve is the General Fund. The balance of the General Fund as at 31 March 2018 shows the extent of resources which the IJB can use in later years to support service provision. As noted above, the IJB has reserves of £900,000 at 31 March 2018.

The IJB's only Unusable Reserve is the Employee Statutory Adjustment Account. This is required by legislation, but has a nil balance.

Indemnity Insurance

The IJB has indemnity insurance for costs relating primarily to potential claim liabilities regarding Board member and officer responsibilities. NHS Lothian and Midlothian Council have responsibility for claims in respect of the services that they are statutorily responsible for and that they provide. The IJB holds separate indemnity insurance through its membership of the CNORIS scheme, the charge for this in 2017/18 was £6,000.

Unlike NHS Boards, the IJB does not have any 'shared risk' exposure from participation in CNORIS. The IJB participation in the CNORIS scheme is therefore analogous to normal insurance arrangements.

Known claims are assessed as to the value and probability of settlement. Where it is material the overall expected value of known claims taking probability of settlement into consideration is provided for in the IJB's Balance Sheet.

The likelihood of receipt of an insurance settlement to cover any claims is separately assessed and, where material, presented as either a debtor or disclosed as a contingent asset.

There are no outstanding claims or any indications that any claims are to be made against the IJB.

2. Critical Judgements and Estimation Uncertainty

The critical judgements made in the Financial Statements relating to complex transactions are:-

- The partner organisations have considered their exposure to possible losses and made adequate provision where it is probable that an outflow of resources will be required and the amount of the obligation can be measured reliably. Where it has not been possible to measure the obligation, or it is not probable in the partner organisations' opinions that a transfer of economic benefits will be required, material contingent liabilities have been disclosed (there are none)
- The Annual Accounts contains estimated figures that are based on assumptions made by the IJB about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates

- There are no items in the IJB's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year.

Provisions

The IJB has not created any provisions in respect of compensation claims. This position is based on the best information available to the IJB at the time of signing these accounts.

3. Events After the Reporting Period

The Annual Accounts were authorised for issue by the IJB on 14 September 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing as at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

4. Reserves

The IJB's general reserve is broken down as follows:-

Earmarked Reserve	£000's
Tech Enabled Care (SG funding)	77
Smile Project (Big Lottery funding)	12
See Hear (SG funding)	7
Autism Strategy (SG funding)	12
MELDAP	132
Spring Project (SG funding)	4
General Reserve	656
	900

5. Debtors

The reserves are held in cash by Midlothian Council and NHS Lothian on the IJB's behalf, the IJB does not have a bank account.

6. Expenditure and Funding Analysis

Expenditure

2016/17		2017/18
£000's		£000's
55,840	Services specifically for Midlothian Health	59,270
38,234	Social Care	38,023
	Midlothian's share of Lothian Health Services	
20,953	Hosted	21,273
19,457	Set Aside	18,572
134,484	Total	137,138

Funded By

38,234	Midlothian Council	38,805
96,250	NHS Lothian	99,233
134,484		138,038

Surplus

900

Expenditure above has been split into three main areas:-

- Expenditure on those services delivered specifically for the population of Midlothian. These services are managed locally by the Midlothian Partnership
- Hosted Services – these are health services managed either by the Edinburgh, East Lothian and West Lothian Partnerships or managed by NHS Lothian on a pan-Lothian basis. These services included Mental Health Services, Learning Disability Services, Substance Misuse Services, Rehabilitation services, General Dental Services, General Pharmaceutical Services and General Ophthalmic Services. This is the IJB's agreed share of these services
- Set Aside Services – these are services delivered in the main acute hospitals (Royal Infirmary of Edinburgh, Western General Hospital and St. John's Hospital) and managed by NHS Lothian. This is the IJB's agreed share of these services.

Corporate Service

Included in the above costs are the following corporate services:-

2016/17		2017/18
£000's		£000's
50	Staff	49
25	Audit Fee	24
75	Total	73

As noted above, the Chief Finance Officer is not charged to the IJB.

7. Related Party Transactions

As partners with the Midlothian Integration Joint Board, both Midlothian Council and NHS Lothian are related parties and the material transactions with these bodies are disclosed in these accounts.

There are elements of expenditure which are shown against the NHS Lothian above but where the resources are used by the social care services delivered by Midlothian Council.

2016/17		2017/18
£000's		£000's
96,250	NHS Lothian	99,115
-4,776	Resource Transfer	-4,776
-3,505	Social Care Fund	-5,100
87,969		89,239
38,234	Midlothian Council	38,023
4,776	Resource Transfer	4,776
3,505	Social Care Fund	5,100
46,515	Total	47,899

Both Resource Transfer and the Social Care Fund are resources which are part of the NHS Lothian budget and are shown as expended therein but these funds are used to deliver social care service supplied by Midlothian Council.

8. VAT

The IJB is not a taxable entity and does not charge or recover VAT on its functions.

Midlothian Integration Joint Board

Audit and Risk Committee



Thursday 6 September 2018 at 2.00 pm

Risk – partners key risks and any potential impact on the IJB

Item number:	5.4
---------------------	------------

Executive summary

The IJB and the Audit and Risk committee have discussed previously the need to be sighted on the operational risks held within the risk registers of the health and social care partners held within both NHS Lothian and Midlothian Council.

At the March 2018 Audit and Risk Committee it was agreed that the Chief Finance Officer would provide a report highlighting these operational risks to ensure that any risks identified are known to the IJB.

Of course, the IJB is not in a position to manage such operational risks and would, in any event, depend on the management actions of the partners..

Committee members are asked to:

- 1. Note the operational risks identified.*
- 2. Consider if any further risks should be added to the risk register*

Risk – partners key risks and any potential impact on the IJB

1. Purpose

This paper provides an update of the operational risks held within the partners risks registers of both Midlothian Council and NHS Lothian to the committee and therefore allowing information on key risks held and their mitigation.

2. Recommendations

The Committee is asked to :-

- 2.1 Note the operational risks.
- 2.2 Consider if any further risks should be added to the risk register.

3. Background and main report

- 3.1 At its March 2018 meeting the Audit and Risk Committee had agreed its risk management policy and there is no requirement to change this extant policy.
- 3.2 As part of this it was agreed that a report would be brought back to provide an update of the risks held by the partner organisations - NHS Lothian and Midlothian Council.
- 3.3 The risk registers for Midlothian Council (Social Care) and NHS Lothian (The Midlothian Partnership) held are attached in appendices 1 and 2,
- 3.4 The key high level risk identified are
 - DELAYED DISCHARGES - There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.
 - ILLY PRESCRIBING SYSTEM WITHIN SUBSTANCE MISUSE SERVICE - There is a risk that patients could be harmed because of recurring issues with the electronic prescribing system and the termination of the current licence leading to potential errors and delays due to manual completion of a significant number of prescriptions.

- CAPACITY OF VOLUNTARY AND PRIVATE SECTOR TO MEET COUNCIL'S REQUIREMENTS IN RELATION TO QUALITY AND COST OF SERVICES - Problems are not one of a limited supply of providers, more to do with capacity and quality. Main threats are commissioned care providers: i) delivering poor quality care that places service users at risk of harm; ii) unable to meet the increasing demands for provision particularly in relation to care at home; iii) ceasing trading due to financial difficulties creating risks around service provision for large groups of very vulnerable people. All of these risks have further risks of adverse publicity for the Council.
- MEETING GROWING DEMANDS WITH CONSTRAINED /REDUCED BUDGETS, ESPECIALLY FROM EXTERNAL FUNDERS - Community Care: Risks from demographic pressures arising from increasing elderly population and increasing numbers of adults with disabilities and complex needs.

3.5 The above four key risk have a score above risk score 15 and the full risk registers are attached for information.

4. Policy Implications

4.1 There are no further policy implications arising from any decisions made on this report.

5. Equalities Implications

5.1 There are no implications for health inequalities or general equality and diversity issues arising directly from the issues and recommendations in this paper.

6. Resource Implications

6.1 There are no further resource implications arising from this paper.

7 Risks

7.1 The issue raised by this report are already identified in the risk registers

8 Involving People

8.1 The IJB holds its meetings in public and its papers will be published on the IJB's website.

9 Background Papers

9.1 Paper to the IJB's Audit and Risk committee, March 2018

AUTHOR'S NAME	David King
DESIGNATION	Chief Finance Officer
CONTACT INFO	David.king@nhslothian.scot.nhs.uk
DATE	September 2018
