

Notice of meeting and agenda



Midlothian Integration Joint Board

Venue: Conference Room, Melville Housing, The Corn Exchange, 200 High Street, Dalkeith, EH22 1AZ,

Date: Thursday, 14 September 2017

Time: 14:00

Eibhlin McHugh
Chief Officer

Contact:

Clerk Name: Mike Broadway

Clerk Telephone: 0131 271 3160

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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 Public Reports

4.1 2016/17 IJB Annual Accounts – Final Schedules **3 - 64**

5 Private Reports

No private reports to be discussed at this meeting.

6 Date of Next Meeting

The next meetings of the Midlothian Integration Joint Board will be held on:

- 5 October 2017 at 2 pm – Midlothian Integration Joint Board
- 16 November 2017 at 2 pm – Development Workshop
- 7 December 2017 at 2 pm – Midlothian Integration Joint Board.



2016/17 IJB Annual Accounts – Final Schedules

Item number: 4.1

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 report their opinion of the IJB's annual accounts to the IJB's Audit and Risk Committee. The Independent auditors have given the accounts an 'unqualified' opinion which means that they meet the requirements of the regulations and give a fair and true view of the IJB's financial position in 2016/17. The accounts require to be finally signed off by 30 September and signed by the Chair of the IJB, the Chief Officer of the IJB, the Chief Finance Officer of the IJB and the Independent Auditor.

The Independent Auditor reported his view to the meeting of the IJB's Audit and Risk committee on 7 September 2017. The IJB's Audit and Risk committee is satisfied with the report of the Independent Auditor and recommends that the Annual Accounts are approved by the IJB.

The Board is recommended to :-

- *Approve the IJB's Annual Accounts for 2016/17*
- *Note the report of the Independent Auditor*

2016/17 IJB Annual Accounts – Final Schedules

1. Purpose

The IJB has prepared annual accounts for the financial year 2016/17, these have now been audited by the IJB's Independent Auditors and the auditors have reported their view to the IJB's audit and risk committee of 7 September 2017.

2. Recommendations

The IJB is asked to :-

- 2.1 Note the opinion of the Independent Auditors on the IJB's Annual Accounts for 2016/17.
- 2.2 Note the recommendation of the IJB's Audit and Risk committee that the annual accounts be approved by the IJB
- 2.3 Approve the IJB's Annual Accounts for 2016/17

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 the Audit and Risk committee which will allow the auditors to bring any matters to the committee's attention.
- 3.3 In summary the auditor's report is unqualified - that is that they consider that the accounts meet the regulations and requirements of the Act and that the accounts are a true and fair view of the IJB's financial position.
- 3.4 The auditors have made a series of recommendations which are attached to their report (Appendix E in the attached report). Both the Chief Officer and the Chief Finance Officer support the independent auditors recommendations and their responses to these recommendations are included in the Independent Auditors 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.

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DATE	September 2017

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- Appendices:**
1. Independent Auditors report
 2. 2016/17 Annual Accounts

Midlothian Integration Joint Board

Year ended 31 March 2017

Annual Audit Report - draft

Audit and Risk Committee – 7 September 2017



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	Review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports	7
Wider scope audit	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:	
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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 Russell Frith, Assistant Auditor General, 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.

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 Auditing Practices Board; 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 the members of the IJB and the Controller of Audit, and presented to both IJB management and those charged with governance, identified as being the IJB's Audit and Risk Committee. It will be published on Audit Scotland's 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 27 February 2017. We summarise the responsibilities of the IJB in Appendix A.

Our Annual Audit Plan also provided you with an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £1.8 million and a Tolerable Error of £0.9 million. We reassessed this using the actual year-end figures, to confirm that the materiality remained appropriate for the audit. No adjustment was made to materiality amounts communicated in our Annual Audit Plan. The threshold for reporting audit differences is £90,000.

Status of the audit and audit opinion

We have substantially completed our audit of the IJB's financial statements for the year ended 31 March 2017.

Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the IJB's financial statements. However until the following further work is complete, further amendments may arise:

- Ø review of the final version of the financial statements
- Ø completion of subsequent events review to the date of approval of the financial statements and receipt of signed management representation letter.

Key contacts

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Acknowledgement

We would like to thank all members of the IJB's management and staff who have been involved in our work for their co-operation and assistance during our audit work.

Accounting and audit matters – our reporting on the IJB's financial statements

Preparation of financial statements

- The unaudited financial statements were prepared to an acceptable standard. There are no adjusted or unadjusted audit differences arising from our audit.

Significant risks

- Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the IJB's financial position based on manipulation of revenue or expenditure transactions.
- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.

Other matters and reporting requirements

- Our testing on opening balances was completed satisfactorily. We have no matters to bring to your attention in respect of our work on the qualitative aspects of the financial statements.
- We have concluded that the IJB has complied with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, we have concluded that our opinion is unqualified. We have not identified any other matters on which we are required to report by exception.

Wider scope audit dimensions – our judgements and conclusions on the IJB's arrangements

Financial sustainability – area of audit focus

- We have concluded that achieving financial sustainability continues to represent a significant challenge for the IJB. No similar risk sharing agreement is in place for 2017/18 and so the budget pressures being experienced need to be addressed to enable break-even to be achieved.
- Management have recognised the need to put in place longer term financial planning arrangements. The success of these is critical to supporting the achievement of the IJB's strategic objectives.

Governance and transparency – area of audit focus

- We have concluded that the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity. A number of actions are highlighted in the Annual Governance Statement which have been delivered in year, but further areas for development have been recognised.
- In its role as the commissioning body, we believe the IJB needs to continue to consider what role it plays in governance in respect of when responsibility lies with the Board or where assurance should be obtained through the arrangements in place at its partners.

Financial management

- 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.
- We have identified areas for action which reflect the need for the IJB to continue to develop its arrangements as activity matures.
- Those charged with governance, in conjunction with management, should ensure that the IJB has sufficient internal audit coverage to review the risks within the audit universe affecting the internal control environment on an appropriate timescale.

Value for Money

- 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 has prepared its Annual Performance Report for 2016/17. We will consider the findings of internal audit's review of performance reporting in 2017/18, including the robustness and accuracy of data gathering and reporting.

Appendices

We have confirmed our independence to act as auditors of the IJB. Auditor remuneration of £19,800 was agreed with management. Non non-audit services were provided.

We have made six recommendations for action by management, two of which are grade 1. All have been accepted by management.

1. Financial statements and accounting

1. Financial statements and accounting

The IJB's Annual Accounts enables the Board to demonstrate accountability for its resources and its performance in the use of those resources during the year. They are prepared in accordance with proper accounting practice, which is represented by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom.

Audit opinion

In respect of the financial statements, we report on the truth and fairness in accordance with applicable law and the 2016/17 Code of Practice of the state of affairs of the IJB as at 31 March 2017 and of the surplus for the year then ended.

The detailed form and content of our audit report, plus the requirements underpinning the report, are contained in the Audit Scotland guidance at http://www.audit-scotland.gov.uk/uploads/docs/um/tgn_2017_5_local_authorities.pdf (Appendix 1).

We expect to issue an unqualified opinion based on the satisfactory completion of our work.

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.

Financial statements preparation

As part of your oversight of the Board's financial reporting process, we report on our consideration of the quality of working papers and supporting documentation prepared predominantly by the finance team to support the audit.

The nature of the IJB transactional activity during the year means that the production of the financial statements should not be a particularly onerous activity at this stage. Equally this was the first year in which the IJB was reporting on its activity and performance for the year.

We made no substantive comments on the core financial statements, although there were a number of matters where for example, prior year comparative information had not been correctly presented.

We made more substantive comments on the form and content of both the management commentary and the annual governance statement. Management have updated the narrative information to take account of our comments.

Materiality

We planned our procedures using a materiality of £1.8 million. We reassessed this using the actual year-end figures, to ensure that our level of materiality remained appropriate. We did not change our assessment of materiality as a result of this reassessment. Our Tolerable Error for the audit was £0.9 million and the threshold for reporting audit differences is £90,000.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits - we applied a materiality of £1,000 based on the potential sensitivity of these disclosures.
- Related party transactions - we considered the nature of these disclosures individually.

Audit differences

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

Financial statements – our overall conclusions

- Our audit work is complete subject to final approval of the financial statements, receipt of management representation letter and update of subsequent events. We expect to issue an unqualified opinion on the IJB's financial statements.
- We undertook our audit in accordance with the materiality outlined to the Audit and Risk Committee in our Annual Audit Plan.
- The unaudited financial statements were prepared to an acceptable standard. There are no adjusted or unadjusted audit differences arising from our audit.

Our Audit Plan identified key areas of focus for our audit of the IJB's financial statements, including significant risks. This report sets out the results of our audit procedures plus any relevant observations, including our views on areas which might be conservative, and where there may be potential risk and/or exposure.

Significant risk – risk of fraud in revenue recognition

What is the risk?

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Given the nature of funding for the IJB, we rebutted the risk of improper recognition of revenue in respect of core funding from Midlothian Council and NHS Lothian. However, we considered the risk of improper recognition of the expenditure incurred by the IJB and how it accounted for this.

Results of audit procedures

We undertook the following procedures as part of our audit.

- ▶ Reviewed and tested revenue and expenditure recognition policies.
- ▶ Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias.
- ▶ Developed a testing strategy in respect of material revenue and expenditure streams.
- ▶ Reviewed and tested revenue cut-off around the year end.

The LASAAC-TAG Guidance concluded that IJBs would be acting as principal in their own right. This conclusion lead to the guidance that contributions to IJB funding should be treated as a distinct and separate transaction from the commissioning income received.

In line with the guidance, the IJB has identified partner funding contributions as un-hypothecated funding and hence presented them as 'Taxation and non-specific grant income and expenditure'. This included the 'set aside' element for large hospital services on the basis that the utilisation of the underlying resources is within the remit of the IJB's commissioning decision.

In accordance with the Integration Scheme, the IJB gave directions to both Midlothian Council and NHS Lothian. At a Board meeting in August 2016, the IJB agreed the final risk sharing model with its two partners which effectively ensured that any overspends within the directions provided would be covered by the partners on overall terms.

At the financial year end, confirmation was obtained from both Midlothian Council and NHS Lothian confirming the expenditure incurred during the year in respect of the directions provided to them by the IJB. We have agreed the figures from these confirmations to the financial statements. We have reviewed the minutes and papers of meetings held after the year end to ensure that financial information presented to the Board is in line with the unaudited financial statements provided for audit.

As the confirmations from the other organisations account for all of the spend in relation to the directions, management at the IJB do not prepare any accounting estimates in respect of income or expenditure at the year end.

Revenue recognition – what have we concluded?

- Our testing has not identified any material misstatements from revenue and expenditure recognition.
- Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the IJB's financial position based on manipulation of revenue or expenditure transactions.

2. Financial statements and accounting



Our Audit Plan identified other aspects of our work which arise either in accordance with International Standards on Auditing (UK & Ireland) or in accordance with the Code. These are set out below.

Significant risk – management override

What is the risk?

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

Results of audit procedures

1. Test the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements

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.

Action plan point 1

2. Review accounting estimates for evidence of management bias, including management's retrospective consideration of prior year estimates

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).

3. Evaluate the business rationale for any significant unusual transactions

We did not identify any significant unusual transactions.

Other audit matters

Opening balances

International Standard on Auditing (UK and Ireland) 510: *Initial audit engagements – opening balances* requires auditors to obtain sufficient, appropriate audit evidence that opening balances do not contain misstatements that materially affect the financial statements. The standard also requires auditors to verify that appropriate accounting policies are reflected in the opening balances and that they have been consistently applied in the current period's financial statements.

Based on 2016/17 being the first year of operation of the IJB, the prior year financial statements did not contain any material balances to bring forward as opening balances.

Qualitative aspects of the financial statements

We have reviewed the significant accounting policies, which are disclosed in the annual accounts, and we consider these to be appropriate to the IJB.

There was no disagreement during the course of the audit over any accounting treatment or disclosure.

There were no significant difficulties encountered in the audit.

Management override / other audit matters – what have we concluded?

- We have not identified any material weaknesses in the design and implementation of controls tested as part of our audit, or evidence of material management override through inappropriate judgements being applied.
- Our testing on opening balances was completed satisfactorily. We have no matters to bring to your attention in respect of our work on the qualitative aspects of the financial statements.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statements which should be included in the Annual Report and Accounts in addition to the financial statements. These items are covered by our independent auditor's report as *Other prescribed matters*, in accordance with the Audit Scotland requirements under the Code.

Other reporting requirements

The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations)

Regulations 8 to 10 set out the statutory requirements in respect to the financial statements, their availability for public inspection and the consideration and signing by the IJB or a committee with an audit or governance remit.

As required, we received the unaudited Annual Accounts by the 30 June deadline. The full Integration Joint Board itself considered the unaudited Annual Accounts on 15 June 2017, in advance of the 31 August deadline. No statutory objections were received on the unaudited financial statements.

Management Commentary

The requirement for the IJB to include a management commentary is included in Regulation 8(2)(a). Audit Scotland requires us to read the information in the management commentary and express an opinion on whether the:

- ▶ information given in the management commentary is consistent with the financial statements and whether it has been prepared in accordance with the statutory guidance.

Guidance on the content of the management commentary was issued by the Scottish Government within Local Government Finance Circular 5/2015, while Part 2 of the Circular provides statutory guidance on the specific requirements. These have been interpreted for the circumstances for the IJB.

The management commentary was primarily focused on the financial performance of the IJB during the year. We suggested amendments to aid the clarity of presentation and to report on the link between financial and non-financial performance. Management took on board these comments and made changes to the audited financial statements.

Remuneration Report

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.

The IJB disclosed the full voting membership of the IJB during the year. We considered this good practice. In line with the Additional Guidance on Accounting for Integration of Health and Social Care issued by LASAAC in March 2017, the Chair and Vice-Chair of the IJB were treated equivalently as senior councillors and included in the remuneration report.

Only the Chief Officer was included in the remuneration report disclosures presented for audit, with narrative explaining that the Chief Officer post is considered only 50% of the duties of the individual as they also have operational duties for Midlothian Council and NHS Lothian. Following discussion with management, information in respect of the Chief Finance Officer was included on the basis of transparency and good practice. We agree with this approach. No other 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 (AGS)

Audit Scotland requires us to read the information in the annual governance statement and express an opinion on whether the information given in the annual governance statements is consistent with the financial statements and whether the statement has been prepared in accordance with *Delivering good governance in local government: framework 2016*.

We set out the work undertaken in respect of the IJB's annual governance statement as part of the Wider Scope – Governance and Transparency section of this Report. As a result, we required changes to the draft Annual Governance Statement to be made by management.

Other reporting requirements – what have we concluded?

- We have concluded that the IJB has complied with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.
- In respect of our 'Opinions on other prescribed matters', which includes the management commentary, the auditable part of the remuneration report, and the annual governance statement, our opinion is unqualified.
- We have not identified any other matters on which we are required to report by exception.

2. Wider scope audit

3. Wider scope audit

In accordance with the Code, conclusions and judgements formed in respect of the four audit dimensions - financial management; financial sustainability; governance and transparency; value for money - which frame the wider scope of public sector audit contribute to the overall assessment and assurance on Best Value.

Wider scope audit risks

The Code requires us to undertake work in respect of each of the four dimensions on an annual basis. The Code also sets out an expectation that 'significant' risks identified through our planning process that relate to the wider scope dimensions will be communicated with you. In undertaking our risk assessment in respect of the wider scope audit areas, we distinguish between the definition of 'significant risks' which apply to the audit of the financial statements, by referring to 'Wider Scope Audit Focus Areas'.

In our Annual Audit Plan we identified two audit focus areas, one in respect of financial sustainability and one in respect of governance and transparency.

Financial management

The Public Bodies (Joint Working) (Scotland) Act 2014 includes an obligation on the Board to appoint a proper officer under section 95 of the Act (CFO). The section 95 officer is responsible for ensuring that appropriate financial services are available to the Board and Chief Officer. The CFO is employed by NHS Lothian and also holds the post of CFO at East Lothian Integration Joint Board. Financial regulations have been established for the IJB.

We are satisfied therefore that the Board has made arrangements for the proper administration of its financial affairs.

The IJB budget was under pressure at all points during the year. In August 2016, a risk sharing assurance model was provided to the Board whereby the budget pressures would be met by the funders. The table below summaries the outturn expenditure for the year. In total, additional funding of £5.42 million (4.2%) was required to meet the financial pressures faced in year.

Funding aspect	Original Budget £m	Additional in-year budget £m	Additional non-recurring support £m	Outturn expenditure £m
Midlothian Council	37.09	0.41	0.74	38.24
NHS Lothian (includes £3.59m social care fund)	82.28	4.41	0.86	87.55
Sub-total IJB	119.37	4.82	1.60	125.79
NHS Lothian - non-cash limited*	8.70	-	-	8.70
TOTAL - IJB	128.07	4.82	1.60	134.49

* non-cash limited budgets are met by the Scottish Government and do not strictly have a budget set by the IJB, but they do represent delegated functions

Financial reporting

The 2016/17 budget was not finalised until the first quarter of the financial year, as a final funding offer and acceptable financial assurance arrangement was not reached with NHS Lothian until Summer 2016. Regular reports were prepared and considered by the IJB during the year, from both the Chief Officer and the Chief Finance Officer, which outlined both operational and financial pressures facing the IJB. There was evidence of outturn forecasting being undertaken, and action to address the financial pressures so that the year-end outturn position was better than forecast by both Midlothian Council and NHS Lothian at quarter three.

We would note that on certain occasions during the year, the finance report was included as a 'To-follow' item on the agenda, but was not subsequently added to the public agenda papers.

Action point 2

3. Wider scope audit

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

Financial management (continued)

Monitoring of expenditure

In line with the Integration Scheme, the IJB issued directions to both Midlothian Council and NHS Lothian in respect of the services and activities it was commissioning from them. These directions had associated funding available with them, in an analogous way to setting a budget for the delegated functions of the IJB.

In discussion with management, it was recognised that the financial pressures facing the IJB and its partners resulted in the financial risk sharing model to account for the overspends which were anticipated in aggregate.

The Integration Scheme sets out the process to be followed for managing both over and underspends. This process was followed for overspends in 2016/17. 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.

As the IJB matures, and uses its directions to determine where services activity will be prioritised going forward, it is important that financial monitoring is developed such that there is clear incentive to obtain the performance outcomes required for each directed element within the funding identified and made available by the IJB. Further, should underspends arise, in line with good budget monitoring practice, the IJB should determine whether to carry these forward as reserves for future activity or to be reallocated to meet other in-year financial pressures.

Action point 3

Internal control and internal audit

The IJB draws on internal audit support through Midlothian Council and NHS Lothian, with the Council's Chief Internal Auditor acting in this role for the IJB. Internal audit work in the year was focussed on financial assurance, governance and follow-up of prior year recommendations. Additional audits within the 2016/17 plan are still to be reported in respect of Monitoring of Performance and Directions to the NHS and Midlothian Council and Performance Reporting.

On the basis of the work performed, internal audit's opinion for the year was that:

- ▶ the IJB has taken steps to develop a framework of governance, risk management and control in 2016/17 and that these will be further developed in 2017/18.
- ▶ overall, the IJB's framework of governance, risk management and control is adequate. Work however needs to be continued in 2017/18 to further develop the governance arrangements through the development of performance reports, workforce plans and improved financial planning.

In setting the internal audit plan for 2017/18, and considering a three year cycle for the audit universe, internal audit highlighted that they had sufficient resource to focus only on high risk areas. It is important that those charged with governance of the IJB, in conjunction with management, ensure that there is appropriate internal audit resource, linked to other sources of assurance, to provide an appropriate review of the effectiveness of internal control to be reported on annually, as required by regulations.

Action point 4

Financial management - what have we concluded?

- 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. We have identified areas for action which reflect the need for the IJB to continue to develop its arrangements as activity matures.
- Those charged with governance, in conjunction with management, should ensure that the IJB has sufficient internal audit coverage to review the risks within the audit universe affecting the internal control environment on an appropriate timescale.

3. Wider scope audit

In accordance with the Code, conclusions and judgements formed in respect of the four audit dimensions - financial management; financial sustainability; governance and transparency; value for money - which frame the wider scope of public sector audit contribute to the overall assessment and assurance on Best Value.

Financial sustainability

Financial sustainability interprets auditors' requirements under ISA 570 *Going concern* and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

We identified in our Annual Audit Plan that achieving a balanced budget for the IJB in 2016/17 required a focus on actions to control expenditure as well as early approval that integration funding would be used as part of the mechanism to provide the IJB with the resources to meet expenditure.

It was also clear that moving into 2017/18 and beyond, delivering on the IJB's strategic priorities would, however, require an ability to transform and deliver significant recurring efficiency savings, while at the same time ensuring that core delivery is not affected.

We therefore identified financial sustainability as a wider scope audit focus area.

Wider scope audit focus area – financial sustainability audit procedures

What did we do?	What did we find?
<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>Financial balance was achieved in 2016/17 but only through adoption of the risk sharing model which saw additional budget provision made in year of £4.82 million and a further £1.6 million in total from both partners as non-recurring support to balance the year-end outturn.</p> <p>In 2017/18, the budget already recognised that the financial pressures faced in 2016/17 would continue to be challenging. A budget of £123.87 million has been proposed from the IJB's funding partners, representing an increase in funding from the original 2016/17 budget of £4.22 million. However with the actual outturn in 2016/17 at £125.79 million, excluding non-cash limited expenditure, and additional funding pressures identified for 2017/18, this is a substantial budget gap.</p> <p>It is acknowledged that a similar risk sharing model is not appropriate in 2017/18 and so an increased focus on monitoring the budgets and addressing pressures will be required at the IJB level as it requires to break-even.</p> <p>Financial pressures of £4.85 million were identified when the budget was approved and at that time, plans were available to address £2.80 million of these with a £2.05 million still to be met. Continued focus is required to manage these budget pressures in year.</p>
Action point 5	
<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>During 2016/17 the IJB approved a reserves strategy, in recognition of this being one element of best practice in establishing the longer term financial planning process for the IJB.</p> <p>The reserves strategy approved a level of 2% of net expenditure, equating to approximately £1 million.</p> <p>It is noted that currently no reserves are held and it is not anticipated that this will change at 31 March 2018.</p>

Financial sustainability (continued)

Wider scope audit focus area – financial sustainability audit procedures	
What did we do?	What did we find?
<ul style="list-style-type: none"> Does the body understand the long-term pressures, including demand pressures, and have these been built into plans and strategies? 	<p>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.</p> <p>At its meeting in April 2017, the Chief Finance Officer presented a report which quantified the identified financial pressures up until 2020/21, although it was acknowledged that further work was required to identify the longer term impact of population change on the activities of the IJB.</p>
<ul style="list-style-type: none"> How effective are the financial planning systems in identifying and addressing risks to financial sustainability across the shorter and longer terms? 	<p>Through 2016/17 the IJB set out a transitional approach to financial planning. The 2016/17 budget was essentially set by its partners separately and then presented to the IJB. In respect of 2017/18, with the IJB fully operational this process is considered by management to have become more tripartite.</p> <p>Key actions identified for 2017/18 include a review of the NHS Lothian 'fair-share' model for identification and allocation of resources that are delivered across the Lothian region. This was considered to be an appropriate initial model but more accurate information is now required on actual use of delegated resources and the amount included in the IJB's budget through the existing share model.</p> <p>The financial planning approach model identifies that for 2018/19, the IJB should become the lead in the budget setting process, consulting with its partners on its requirements. In this way, the financial planning will change from the IJB being involved primarily in identifying recovery actions to meet budget pressures to moving to setting the priorities for use of resources.</p> <p>Based on this a multi-year financial plan will be developed to support the IJB and its partners in prioritising resources and service provision over the medium term.</p> <p style="text-align: right;">Action plan point 5</p>

Financial sustainability – what have we concluded?

- We have concluded that achieving financial sustainability continues to represent a significant challenge for the IJB. No similar risk sharing agreement is in place for 2017/18 and so the budget pressures being experienced need to be addressed to enable break-even to be achieved.
- Management have recognised the need to put in place longer term financial planning arrangements. The success of these is critical to supporting the achievement of the IJB's strategic objectives.

3. Wider scope audit

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.

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.

With this being the first year of full operation of the IJB, it is important that appropriate governance arrangements are established from the outset, to support delivery of strategic objectives and transparent scrutiny of the IJB's performance.

We therefore identified governance and transparency as a wider scope audit focus area.

Wider scope audit focus area – governance and transparency audit procedures

What did we do?	What did we find?
We considered whether:	The IJB has in place a number of the key requirements for good governance:
<ul style="list-style-type: none"> ▶ The IJB can 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? ▶ 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? ▶ Is appropriate and effective leadership in place? 	<p>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. The Audit and Risk Committee was established with clearly defined terms of reference.</p> <p>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 IJB's code of conduct on 1 June 2016.</p> <p>Internal audit's opinion for the year was that the Board had taken steps to develop a framework of governance, risk management and control in 2016/17 and that these will be further developed in 2017/18. Overall, the IJB's framework of governance, risk management and control was considered adequate.</p> <p>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.</p> <p>We suggested a number of changes to the form and structure which management took on board and made appropriate revisions. In particular, in respect of certain matters noted as in development, we suggested that it was important for their to be clarity where responsibility was the role of the IJB, or one or other of its partners.</p> <p style="text-align: right;">Action plan point 6</p> <p>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 & Risk Committee.</p> <p>Subsequent to the year-end, the Chief Officer indicated her intention to retire and the Board has progressed to recruit her replacement, who will take up full duties at the start of October 2017.</p>

Governance and transparency – what have we concluded?

- We have concluded that the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity. A number of actions are highlighted in the Annual Governance Statement which have been delivered in year, but further areas for development have been recognised.
- In its role as the commissioning body, we believe the IJB needs to continue to consider what role it plays in governance in respect of when responsibility lies with the Board or where assurance should be obtained through the arrangements in place at its partners.

3. Wider scope audit

Value for money is concerned with using resources effectively and continually improving services. This includes consideration of whether resources are being used effectively; services are improving and the IJB has appropriate arrangements to demonstrate Best Value.

Value for money

Monitoring of performance and achievement of better outcomes for the resources available is key to the demonstration of value for money. The Ministerial Strategic Group for Health and Community Care agreed that in 2017/18 progress by IJBs will be tracked across the following:

- (1) Unplanned admissions
- (2) Occupied bed days for unscheduled care
- (3) A&E performance
- (4) Delayed discharges
- (5) End of life care
- (6) The balance of spend across institutional and community services.

In response the IJB considered and agreed nine local improvement goals that would be appropriate to measure the IJB's performance in respect of these areas:

- ▶ Reduce unscheduled admissions by 5% by September 2018
- ▶ Reduce unscheduled hospital occupied bed days by 10% by April 2019
- ▶ Reduce the number of patients arriving by ambulance to A&E who are subsequently discharged home
- ▶ By April 2018 over 87% of patients who are subsequently admitted into hospital from A&E are within the 4 hour standard
- ▶ Maintain the current number of patients using A&E (ongoing)
- ▶ Reduce delayed discharge occupied bed days by 30% by April 2018
- ▶ No patients in the RIE or WGH with a delayed discharge over 72 hours by April 2018
- ▶ Reduce by 10% by April 2018 the number of Occupied Bed Days in the Royal Infirmary Edinburgh / Western General Hospital during the last six months of life
- ▶ Reduce the percentage of patients over 75 who are in a larger hospital from 1.9% to 1.6% and in a care home from 6.8% by a date, still to be agreed.

In setting these improvement goals, management have set out the available data and information available to enable monitoring of performance against these improvement goals and provided the IJB with performance reports during 2017/18 on how the IJB is performing against these measures.

Integration Joint Boards are required under the legislation to prepare an annual performance report by 31 July. The IJB has considered its draft report at its meeting on 24 August 2017, which sets out how the IJB performed during the year, in particular in making progress against its Strategic Plan 2016-2020. Internal audit are due to look at the performance reporting within the IJB as part of their work and we will review and consider the findings of this work as part of our audit work in 2017/18.

The Care Inspectorate undertook both scheduled and unscheduled inspections across a range of IJB services during 2016/17. The overall quality of care as assessed as good or better in 19 out of 27 services for the reporting period. Four community-based services were rated adequate or lower as were three Care Homes. Overall, 85% of care services graded 'good' (4) or better in Care Inspectorate inspections (Scottish rate 83%).

Value for Money – What have we concluded?

- 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 has prepared its Annual Performance Report for 2016/17. We will consider the findings of internal audit's review of performance reporting in 2017/18, including the robustness and accuracy of data gathering and reporting.

Appendices

- A. IJB Responsibilities**
- B. Required communications with the Audit and Risk Committee**
- C. Auditor independence**
- D. Management representations**
- E. Action plan**

A. The IJB's responsibilities

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

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 and Risk 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. Required communications



There are certain additional communications that we must provide to the Audit and Risk Committee, which are set out below.

Required communication - what is reported?	Our reporting to you
Terms of engagement Confirmation by the Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	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, including any limitations.	Annual Audit Plan – 9 March 2017
Significant findings from the audit <ul style="list-style-type: none"> • Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Any significant difficulties encountered during the audit • Any significant matters arising from the audit that were discussed with management • Written representations we have requested • Expected modifications to the audit report • Any other matters significant to overseeing the financial reporting process • Findings and issues around the opening balance on initial audits 	This Annual Audit Report – 7 September 2017
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 • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Significant corrected misstatements, in writing 	This Annual Audit Report – 7 September 2017
Fraud <ul style="list-style-type: none"> • Asking the Audit and Risk Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the IJB • Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit and Risk Committee responsibility. 	This Annual Audit Report – 7 September 2017

Required communication - What is reported?	Our reporting to you
<p>Significant deficiencies in internal controls identified during the audit</p> <ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	<p>This Annual Audit Report – 7 September 2017.</p> <p>No significant deficiencies were identified in the course of our audit which required immediate communication to the Audit and Risk Committee.</p>
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the IJB's related parties including, where 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/or regulations Difficulty in identifying the party that ultimately controls the entity 	<p>We have no matters to report.</p>
<p>Subsequent events</p> <ul style="list-style-type: none"> Where appropriate, asking the Audit and Risk 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>Other information</p> <ul style="list-style-type: none"> Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	<p>We have no matters to report.</p>
<p>External confirmations</p> <ul style="list-style-type: none"> Management's refusal for us to request confirmations We were unable to obtain relevant and reliable audit evidence from other procedures. 	<p>We have received all requested confirmations.</p>
<p>Consideration of laws and / or regulations</p> <ul style="list-style-type: none"> Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off" Asking the Audit and Risk Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit and Risk Committee. 	<p>We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.</p>
<p>Independence</p> <ul style="list-style-type: none"> Communication of all significant facts and matters that have a bearing on EY's objectivity and independence. 	<p>This Annual Audit Report – 7 September 2017, Appendix C</p>

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?

Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:

- ▶ The principal threats
- ▶ Safeguards adopted and their effectiveness
- ▶ An overall assessment of threats and safeguards
- ▶ Information on the firm's general policies and processes for maintaining objectivity and independence
- ▶ Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan dated 9 March 2017.

We complied with the APB 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 you and your Audit and Risk Committee consider the facts known 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 7 September 2017.

Summary of fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.	Agreed fee per Annual Audit Plan	n/a
	Auditor remuneration	£19,800
We confirm that we have not undertaken non-audit work outside the Code requirements.	Fixed costs *	£5,540
	Non-audit fees	-
Our audit fee was not agreed with management at the time of our Audit Plan. Fees now agreed are shown in the table opposite.	Total audit fees	£25,340

* Fixed costs, which are determined by Audit Scotland, comprise £1,040 pooled costs, £3,790 contribution to Audit Scotland's Performance Audit and Best Value and £710 contribution to Audit Scotland costs

ISA (UK and Ireland) 580.10 requires the auditor to obtain written representation that management, including those charged with governance, has fulfilled its responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including where relevant, their fair presentation.

Ernst & Young LLP
Ten George Street
Edinburgh EH2 2DZ
[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 2017. 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 financial position of Midlothian Integration Joint Board as of 31 March 2017 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 2016/17.

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 and Ireland), 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 the 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 2016/17.
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 2016/17. 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 2016/17, 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. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. 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.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the IJB's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the IJB.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. 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.

D. Information Provided and Completeness of Information and Transactions (continued)

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 audit and risk committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following dates: 14 September 2017 for the IJB and 7 September 2017 for the audit and risk committee.
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 year 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.

E. 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.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. As disclosed in the financial statements, there have been no events subsequent to period end which require

adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Management Commentary, the Remuneration Report, the Annual Governance Statement and the Statement of Responsibilities.
2. 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 relevant guidance.
3. The information given in the Annual Governance Statement for the financial year for which the financial statements are prepared reflects the IJB's governance framework, is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).
4. The information contained in the auditable part of the Remuneration Report has been prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.
5. We confirm that the content contained within the other information is consistent with the financial statements.

Yours faithfully,

Chief Finance Officer

Chief Officer

Chair of the IJB

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 Board or management to action.

Classification of recommendations

Grade 1: Important weaknesses and/or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

Grade 2: 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 risk	Our recommendation and grading	Management's response
1	<p>Journal processing</p> <p>All journal processing for the IJB was undertaken at the year end.</p> <p>There is a risk that the financial records of the IJB during the year exist only in a range of reports arising from end user analysis and production.</p>	<p>It would be good practice to reflect the initial budget allocation of income as an initial journal and then additional budget and expenditure information within the financial ledger as this becomes reported. This will ensure that the transactions of the IJB are being recorded at appropriate intervals during the financial year.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed. The IJB's books of account are maintained by Midlothian Council. There was considerable discussion as to what would be reflected in these accounts in 16/17 hence the delay in actioning. However, we will liaise with Midlothian Council to reflect transactions more timeously in 2017/18</p>
2	<p>Financial reporting</p> <p>We would note that on certain occasions during the year, the finance report was included as a 'To-follow' item on the agenda, but was not subsequently added to the public agenda papers. There is a risk that business of the IJB is perceived to be undertaken without full transparency on financial reporting.</p>	<p>Management should ensure that all agenda items, except where they are permitted to be considered in private, are made publically available, even when listed initially as items 'to follow'.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Agreed</p>
3	<p>Use of directions / budget monitoring</p> <p>It is recognised that the financial risk sharing arrangements which applied in 2016/17 were a reflection of the approach to budget setting in the year and the support of the partners to ensure the first year operations of the IJB were provided with appropriate financial support.</p> <p>By allocating resources to the individual directions made by the IJB, there is a risk that these are not used in future to drive the prioritisation of resources which the IJB has determined through its planning processes.</p>	<p>As the IJB matures, financial monitoring should be developed such that there is clear incentive to deliver on the directions made by the IJB within the funding allocated as part of the direction.</p> <p>Where underspends arise, in line with the integration scheme, the IJB should determine whether to carry these forward as reserves or to reallocate in year to meet other financial pressures.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Agreed. The IJB is continuing to develop its directions mechanism which will allow directions to become the key part of the governance and delivery mechanism for the Strategic Plan. Performance against individual directions will be monitored in terms of actions, required, financial resources used and outcome delivered.</p>

E. Action Plan (continued)



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 Board or management to action.

No.	Findings and risk	Our recommendation and grading	Management's response
4.	Internal audit In setting the medium term internal audit plan, internal audit highlighted that they had sufficient resource to focus only on high risk areas over a three year cycle. There is a risk that there is insufficient internal audit resource to review the control arrangements established by management in respect of the key risks facing the IJB.	It is important that those charged with governance of the IJB, in conjunction with management, ensure that there is appropriate internal audit resource, linked to other sources of assurance, to provide an appropriate coverage and audit of the IJB's internal control arrangements. <i>Grade 2</i>	Agreed in principle however the IJB recognises the resource constraints of its partners who provide this function. If internal audit resources are constrained then the IJB will have to recognise that in its risk register and risk management processes.
5	Financial planning and sustainability The IJB is already facing significant financial pressures in 2017/18 with a need to plans to manage these in year to ensure break-even by 31 March 2018. Forward financial planning has commenced to identify the financial pressures over the next three years and the steps which the IJB will need to take to manage these.	It is clear that there is full recognition of the need to develop longer term financial plans but given the significance of financial sustainability to the IJB, the Board should ensure that this remains an urgent priority. <i>Grade 1</i>	Agreed. The IJB is fully aware of this issue and the IJB is proposing to produce a multi year financial plan for the end of this calendar year.
6	Governance responsibilities In reviewing the Annual Governance Statement we identified a number of areas where the content could be clarified to make it clear what arrangements were in place and whether assurance was the responsibility of the IJB or one or both of its partners.	As the IJB continues to mature, focus is required on mapping the sources of governance assurance to ensure that Board members are clear on how their responsibilities are discharged. <i>Grade 2</i>	Agreed.

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Midlothian Integration Joint Board



Midlothian Integration Joint Board Annual Accounts 2016/17

The Annual Accounts of Midlothian Integration Joint Board for the period from 1 April 2016 to 31 March 2017, 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 2015/16 and Service Reporting Code of Practice.

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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 2016 to 31 March 2017 is Ernst and Young LLP, 10 George Street, Edinburgh, EH2 2DZ.

Management Commentary

The Role and Remit of the IJB

The Public Bodies (Joint Working) Act (2014) directs the creation of an Integration Authority for Midlothian to which a range of functions are to be delegated by NHS Lothian Board and Midlothian Council (the ‘partners’). Midlothian Integration Joint Board (IJB) was created pursuant to section 1(4)(a) of the Act being a body corporate. 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 issued directions to its partners for the financial year 2016/17 in March 2016. This in line with the processes set out in the Public Bodies (Joint Working) (Scotland) Act 2014.

The IJB met eight times during the financial year 2016/17 and the members of the IJB in March 2017 were as follows:-

Member	Nominated/Appointed by	Role
Catherine Johnstone	Nominated by Midlothian Council	Voting Member, Chair
Peter Johnston	Nominated by NHS Lothian	Voting Member, Vice Chair
Bob Constable	Nominated by Midlothian Council	Voting Member
Bryan Pottinger	Nominated by Midlothian Council	Voting Member

Derek Milligan	Nominated by Midlothian Council	Voting Member, Chair of Audit and Risk Committee
Member	Nominated/Appointed by	Role
Alex Joyce	Nominated by NHS Lothian	Voting Member
John Oates	Nominated by NHS Lothian	Voting Member
Alison McCallum	Nominated by NHS Lothian	Voting Member
Eibhlin McHugh	Appointed by the IJB	Chief Officer
David King	Appointed by the IJB	Chief Finance Officer
Alison White	Nominated by Midlothian Council	Chief Social Worker
Caroline Miles	Nominated by NHS Lothian	Chief Nurse
David Caesar	Nominated by NHS Lothian	Consultant
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
Margaret Kane	Appointed by the IJB	User/Carer representative
Ewan Aitken	Appointed by the IJB	Voluntary Sector Representative
Keith Chapman	Appointed by the IJB	User Representative

All members, except those indicated above as voting members, are non-voting members.

Note – the Chief Officer, Eibhlin McHugh, has indicated her intention to retire at the end of October 2017. The IJB appointed a new Chief Officer at its meeting in August 2017.

The IJB's Operations for the Year

2016/17 was the first year in which the IJB received financial resources ('budget') to support the delivery of its delegated functions. These resources were made available by NHS Lothian and by Midlothian Council as described in the Integration scheme. The financial models to generate the IJB's budget were proposed by Midlothian Council and NHS Lothian and agreed by the IJB as part of its financial assurance process.

At its March 2016 meeting, the IJB agreed the budget proposed by Midlothian Council which was based on the budget agreed by the Council for its social work services at the Council meeting in February 2016. The IJB also agreed an indicative budget from NHS Lothian based on outline values presented to the IJB as part of the overall NHS Lothian budget setting process. Having agreed these budget propositions this budget was the basis of the directions which the IJB issued to NHS Lothian and Midlothian Council in line with the IJB's agreed directions policy in March 2016.

NHS Lothian formally proposed a budget in June 2016, after which the IJB undertook a further financial assurance process and accepted that budget at its August 2016 meeting. The IJB's budget from both NHS Lothian and Midlothian Council has been subject to changes during the financial year. Midlothian Council had carried forward

resource on behalf of its social care services from 2015/16 and released these resources to the IJB as required during 2016/17. NHS Lothian both continued to revise its health budget setting model in collaboration with the IJB and also received further allocations from the Scottish Government 'in year'. Some of the further Scottish Government in year allocations supported delegated functions with the budgets being made available to the IJB.

Both partners agreed to a financial risk sharing model for 2016/17 which would mean that overspends would be supported by the partners as appropriate, i.e. that Midlothian Council would support any total net overspends in social care services and NHS Lothian would support any total net overspends in health services.

2016/17 was the first year of the IJB assuming its responsibilities for health and care in Midlothian and that inevitably had a strong focus upon organisational and governance arrangements regarding clarifying budgets, developing local management systems and agreeing risk management approaches. Nevertheless there is clear evidence of new ways of delivering local services. The Hospital at Home Service grew in capacity; patients requiring rehabilitation now receive this service in the Community Hospital or at home rather than in Liberton Hospital and more person-centred care is being provided through services such as the Mental Health Access Point and the Wellbeing Service. Plans are now well developed to provide local solutions to particular challenges including addressing health inequalities and responding to the growing pressures within Primary Care. The IJB has published an Annual Performance report that lays out its Achievements in 2016/17. This can be found at:

www.midlothian.gov.uk/downloads/file/2363/midlothian_integration_joint_board_annual_performance_report_2016-17.

The IJB's Position at 31 March 2017

For the year ending 31 March 2017, the IJB has broken even. That is the costs incurred in delivering the IJB's functions by Midlothian Council and NHS Lothian are equal to the income that the IJB received from NHS Lothian and Midlothian Council. This is in line with the risk sharing agreement referred to above.

The charges for the delivery of the delegated functions by the partners are Midlothian Council - £38.24m and NHS Lothian - £96.25m.

The charges 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

2016/17 for hosted services is 10% and, generally, 10% of the Lothian element of the set aside budgets.

In 2016/17 per the risk sharing agreements both Midlothian Council (MLC) and NHS Lothian (NHSiL) have made additional, non-recurrent resources available to the IJB as follows:

	MLC £m	NHSiL £m
Opening Budget	37.09	78.69
Social Care Fund		3.59
Add'n budget in year	0.41	4.41
2016/17 budget	37.50	86.69
Non Cash Limited		8.70
Additional n/r Support	0.74	0.86
Net charge to IJB	38.24	96.25

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.

The IJB's Strategy and Business Model

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:-

- Shifting the balance of care to provide more care delivered at home or in a homely setting rather than in hospital or other institutions
- Ensuring care is person centred, with a focus on the individual and not just specific health and social care needs
- Further improving the joined up approach to working across professions and bodies delivering health and social care functions
- Ensuring citizens, communities and staff involved in providing health and social care services will have a greater say in how these services are planned and delivered.

The Strategic Plan, having been consulted on as required by the regulations, was agreed by the IJB at its meeting of 10 December 2015.

In order to deliver the IJB's Strategic Plan, the Act lays out that the IJB must issue directions to its partners describing for each function the actions required, the resources to be used and the outcomes required.

The IJB issued directions in March 2016 based on an indicative budgetary position as described above in line with the IJB's policy on directions.

The IJB's long term plan is to redesign the delivery of the functions delegated to it in order to:-

- Increase capacity – to manage the pressures resulting from an aging and increasing population
- Improve the quality of care – by supporting a more individual centred, holistic approach
- Reduce the costs of the delivery of the functions in line with the projected reduction in the financial resources available to the IJB.

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. The local elections in May 2017 changed the membership of the IJB and this may cause issues with continuity of both knowledge and purpose.
2. 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.
3. The increasing population in Midlothian remains a challenge which may exacerbate the staffing pressures above.
4. 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.

Analysis of the Financial Statements

The financial statements are all presented on a net basis.

Income and Expenditure

As was discussed above, the partners provided additional non-recurrent resources to support the IJB's position in year. This was to underpin three main pressure areas:-

- Significant cost pressures in the delivery of social care for adults.
- Significant overspends (both historical and in year) against the GP prescribing budget.
- A lack of recurrent delivery of efficiency schemes and recovery plans both within those services managed by the partnership and the services managed by other management teams within NHS Lothian.

Each of these pressures is being addressed by management and actions are detailed in the IJB's financial plan for 2017/18.

The IJB has agreed with Midlothian Council and NHS Lothian an opening budget for 2017/18 and has issued directions for 2017/18 utilising that budget. In addition to

that budget Midlothian Council has identified c. £1.2m of reserves relating to social care services; those funds will be made available to the IJB in 2017/18.

Balance Sheet

Given that the IJB has broken even in 2016/17 and that there are no outstanding balances either carried into this financial year nor brought forward into future years, (the IJB has no assets per its Integration Scheme) there are no entries in the IJB's balance sheet for 2016/17.

Reserves

The IJB has no reserves at the end of 2016/17. However, as noted above, Midlothian Council has carried forward resources that will be made available to the IJB in 2017/18.

John Oates
IJB Chair

Eibhlin McHugh
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 7 September 2017.

Signed on behalf of Midlothian Integration Joint Board.

John Oates

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 2017 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 2016/17.

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. Peter Johnson, as a non-executive member of NHS Lothian Board who is also the Vice Chair of Midlothian IJB has received an additional notional day's remuneration specifically for his role as Vice Chair of the IJB in 2016/17. This remuneration is £8,169 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 Eibhlin McHugh 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 2015/16, that 50% of her total remuneration is to be shown in the accounts of the IJB as her 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 2015/16	Senior Employees	Salary, Fees & Allowances 2016/17	Total 2016/17
£		£	£
30,045	Eibhlin McHugh	49,668	49,668
11,220	David King	26,802	26,802

2015/16 was not a full financial year; Eibhlin McHugh was appointed in August 2015 and David King was appointed in October 2015.

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 table shows the IJB's funding during the year to support officers' pension benefits. The table 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 Contribution			Accrued Pension benefits	
	For year	For period ending		at	at
	31/3/2017 £000's	31/3/2016 £000's		31/3/2017 £000's	31/3/2016 £000's
Eibhlin McHugh (from August 2015)	10	6	Pension Lump Sum	22 45	21 44
David King (from October 2015)	4	2	Pension Lump Sum	11 34	11 33

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 2015/16	Remuneration Band	Number of Employees in Band 2016/17
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 2016/17.

John Oates
IJB Chair

Eibhlin McHugh
Chief Officer

Annual Governance Statement

Midlothian Integration Joint Board (IJB) 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 Midlothian IJB. This includes: setting the strategic direction, vision, culture and values of the IJB 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 IJB has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework and guidance on Delivering Good Governance in Local Government: Framework (2016).

The 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 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 IJB
- Creating the conditions to ensure that all IJB members and the IJB'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 IJB's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the IJB'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 internal auditor
- Ensuring an audit committee, which is independent of the executive and accountable to the IJB, 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 Finance Officer in Local Government. The Chief Finance Officer has overall responsibility for the IJB's financial arrangements and is professionally qualified and suitably experienced.

The IJB 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 IJB's governance framework is informed by:

- The work of the IJB, the Strategic Planning Committee and the Audit & Risk Committee
- The annual assurance questionnaires that are provided by the Chief officer and the Chief Finance officer
- An annual review, by the Chief Internal Auditor, of compliance with the IJB's Local Code of Corporate Governance
- The Chief Internal Auditor's annual report which is based on internal audit work completed during the year
- Reports from the IJB's external auditor – the only one currently available being that on the 2015/16 IJB's accounts
- 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, using an assurance template, the Chief Internal Auditor samples elements in the code to determine whether these are working effectively and that, therefore, the governance framework is working effectively.

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

Neither of these assessments highlighted any issues that would impact on the level of effectiveness of the IJB's governance framework. A number of improvements were identified and these are noted below in the action plan.

The statement has also been informed by the work undertaken by the Chief Internal Auditor who, following the requirements of the Local Authority Accounts (Scotland) Regulations 2014, conducted an annual review of the effectiveness of the IJB's system of internal control. The Chief Internal Auditor concluded that based on the work undertaken in 2016/17 that overall, the MIJB's framework of governance, risk management and control is adequate but noted areas for further development in 2017/18. These improvements are reflected within the action plan detailed below.

The Chief Internal Auditor has responsibility for the IJB's Internal Audit function and reports functionally to the Audit and Risk Committee to allow appropriate independence. The Chief Internal Auditor is professionally qualified and suitably experienced to lead and direct the Internal Audit team.

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every five years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS by the Internal Audit Section. An external assessment was not undertaken in 2016/17 but will be undertaken in 2017/18 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG), which is a sub group of CIPFA. However a self evaluation of compliance with the Public Sector Internal Audit Standards was undertaken by the Chief Internal Auditor. This evaluation demonstrated that the key elements of the Standards were complied with during the year.

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 & 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 & Risk Committee
- Finance - the Board received reports in relation to financial assurance prior to the setting of budgets (for both 2016/17 and 2017/18) 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 IJB's code of conduct on 1 June 2016.

Through the Board and the Audit & Risk Committee, further work will be progressed and will be carried out in relation to governance of these particular aspects of the Board's statutory duties and powers.

Action Plan

A number of governance improvements were highlighted in the 2015/16 self assessment and progress has been made in 2016/17 on the following:

- **Develop and promote our purpose and vision.** The IJB has continued to develop and share its vision as laid out in its Strategic Plan. Papers have been presented to the IJB for discussion and a series of workshops have been conducted with the IJB to develop and promote the purpose and vision. The IJB has consulted widely through its Strategic Planning Group and its series of 'hot topics' meetings.
- **Finalisation of the Code of Conduct.** Approved by the Scottish Government in October 2016.
- **Corporate support to the IJB.** The IJB has been appropriately supported by its Partners. The Chief Officer and the Chief Internal Auditor is provided by Midlothian Council and the Chief Finance Officer is provided by NHS Lothian. Midlothian Partnership's resources have been enhanced by NHS Lothian and the Partnership supports the IJB on a day to day basis.
- **Risk Register.** The IJB's risk register was formally adopted by the Audit & Risk Committee and has been updated for the Audit & Risk Committee meetings.
- **Recording of financial transactions.** As agreed in the Integration Scheme, Midlothian Council is recording the financial transactions of the IJB in an appropriate financial ledger system.
- **Document Retention Policy.** The IJB, working with its partners and the other Lothian IJBs, is finalising a policy on document management based on the Scottish Government's model scheme. This will cover the retention policy.
- **Business Continuity.** The IJB takes assurance from the business continuity plans developed and managed by Midlothian Council and NHS Lothian which will support the delivery of those functions delegated to the IJB.
- **Fraud.** An assessment of fraud related risk has now been undertaken with the assistance of the Internal Audit Section. In terms of the delivery of its delegated functions, the IJB takes assurance from the fraud prevention policies in operation by Midlothian Council and NHS Lothian.
- **Registration with the Information Commissioner.** A legal opinion has been sought and the IJB does not have to be registered with the Information Commissioner at this time. This will be continuously reviewed.

- **Information Sharing Agreement.** The IJB is a signatory to the pan-Lothian data sharing agreement. This is an agreement between NHS Lothian, the four Councils in the Lothian area and the four IJBs in the Lothian area.
- **Information and data protection.** This is covered by the Public Records Act actions and the IJB is developing its plan in 2017/18 in cooperation with its partners.
- **Standards officer.** A standards officer has been appointed - Alan Turpie the Principle Solicitor for Midlothian Council.
- **Ensure appropriate arrangements are in place to deal with complaints.** The IJB has now signed off and published its complaints handling process based on the Scottish Government Model Complaints Handling Scheme.

Areas identified for improvement being progressed:

- **Document Retention Policy.** The IJB, working with its partners and the other Lothian IJBs, is finalising a policy on document management based on the Scottish Government's model scheme. This will cover the retention policy.
- **IJB Web Site.** The IJB continues to use the Midlothian Council's website wherein the IJB has its own specific area. The IJB is still developing its own distinct web site.

The following table sets out improvements to the governance framework which are to be progressed in 2017/18:

Areas for improvement Identified in 2016/17	Actions proposed in 2017/18
<p>Updated code of corporate governance</p> <p>The 'Delivering Good Governance in Local Government: Framework' was updated by CIPFA/SOLACE in 2016 but this has not yet been fully embedded.</p>	<p>The IJB is preparing a revised code of corporate governance in line with the new model code of corporate governance.</p>
<p>Workforce Planning</p> <p>The IJB will have to develop its workforce plans with an emphasis of moving from specialised institution based workforce into a generalised community based workforce.</p>	<p>The IJB workforce plan is currently being developed through a process of engagement with staff and partners. Final approval for the workforce plan will be sought at the October 2017 IJB meeting.</p>
<p>Improvement of Financial Planning</p> <p>Improve financial planning timescales by moving to a three year plan rather than the current position of a detailed</p>	<p>The IJB is working with Midlothian Council and NHS Lothian to develop a multi-year financial plan. A financial</p>

Areas for improvement Identified in 2016/17	Actions proposed in 2017/18
one year plan with indicative values for the following two years.	strategy incorporating this multi-year principle was outlined in a report to the IJB at its October 2016 meeting.
Performance Reporting The IJB should develop performance reports.	The IJB continues to develop its process to ensure that the Directions are being fully delivered by its partners and that the IJB is fully informed on its performance. Papers have been presented to the IJBs to develop this model along with a workshop on performance management in April 2017. Regular reports are now being presented to the IJB. The reports include performance against the agreed 'weather vane' measures.
Internal Audit SLA Gain approval from NHS Lothian of the Service Level Agreement between the Internal Audit Services of Midlothian Council, NHS Lothian and the Midlothian Integration Joint Board.	Both Midlothian Internal Audit service and NHS Lothian Internal Audit have made resources available to support the IJB. An SLA is in the process of being finalised.

On the basis of the IJB'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 IJB to advance its corporate governance arrangements and seek continuous improvement.

John Oates
IJB Chair

Eibhlin McHugh
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 for the year ended 31 March 2017 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 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- ☐ give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the Board as at 31 March 2017 and of its result on the provision of services 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 2016/17 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 of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). 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 Board 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 Standards for Auditors, 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.

Responsibilities of the Chief Finance Officer 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.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Board and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation 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&I) 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.

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 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 in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Report on other requirements

Opinions on other prescribed matters

We are required by the Accounts Commission to express an opinion on the following matters.

In our opinion, the auditable 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 auditable part of the Remuneration Report are not in agreement with the accounting records; or
- ☐ 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
Ten George Street
Edinburgh
EH2 2DZ

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.

2015/16		2016/17	
Net Expenditure		Net Expenditure	
£m		£m	
0.02	Health Care Services - NHS Lothian	96.25	
0.02	Social Care Services - Midlothian Council	38.24	
0.04	Cost of Services	134.49	
0.04	Taxation and Non-Specific Grant Income	134.49	
0.00	Surplus or Deficit on Provision of Services	0.00	
0.00	Total Comprehensive Income and Expenditure	0.00	

The IJB was established in August 2015 but did not receive any income nor direct any expenditure in the period between August 2015 and March 2016. However, the expenditure in 2015/16 was the costs of the Chief Officer and the Audit Fee as noted in the IJB's annual accounts for 2015/16.

Movement in Reserves Statement

The IJB had no reserves in 2015/16 nor does it hold any reserves in 2016/17

Movements in Reserves During 2016/17	General Fund Balance	Unusable Reserves: Employee Statutory Adjustment Account	Total Reserves
	£000	£000	£000
Opening Balance at 31 March 2016	(0)	0	(0)
Total Comprehensive Income and Expenditure	(0)	0	(0)
Increase or Decrease in 2016/17	(0)	0	(0)
Closing Balance at 31 March 2017	(0)	0	(0)

Movements in Reserves During 2015/16	General Fund Balance	Unusable Reserves: Employee Statutory Adjustment Account	Total Reserves
	£000	£000	£000
Opening Balance at 31 March 2015	0	0	0
Total Comprehensive Income and Expenditure	(0)	0	(0)
Increase or Decrease in 2015/16	(0)	0	(0)
Closing Balance at 31 March 2016	(0)	0	(0)

Balance Sheet

The IJB has neither assets nor liabilities at 31 March 2017.

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.

31 March 2016		Notes	31 March 2017
£000			£000
0	Short term Debtors		0
0	Current Assets		0
0	Short term Creditors		0
0	Current Liabilities		0
0	Provisions		0
0	Long-term Liabilities		0
0	Net Assets		0
0	Usable Reserve: General Fund		0
0	Usable Reserve:		0
0	Employee Statutory Adjustment		0
0	Account		0
0	Total Reserves		0

David King
Chief Finance Officer

Notes to the Financial Statements

1. Significant Accounting Policies

General Principles

The Financial Statements summarises the IJB's transactions for the 2016/17 financial year and its position at the year-end of 31 March 2017.

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 2016/17, 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 charges by the partners.

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. There are no outstanding funding balances from either partners at 31 March 2017.

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 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, 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.

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 shows the extent of resources which the IJB can use in later years to support service provision. As noted above, the IJB has no reserves at 31st March 2017.

The IJB's only Unusable Reserve is the Employee Statutory Adjustment Account. This is required by legislation.

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 2016/17 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' options 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 2017 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. It is not certain that all claims have been identified or that the historic level of settlement payments is a reliable guide for future settlements.

3. Events After the Reporting Period

The Annual Accounts were authorised for issue by the IJB on 14 September 2017. 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 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

4. Expenditure and Funding Analysis

Expenditure 2015/16		2016/17
£000's		£000's
	Services specifically for Midlothian	
22	Health	55,840
21	Social Care	38,234
	Midlothian's share of Lothian Health Services	
0	Hosted	20,953
0	Set Aside	19,457
43	Total	134,484
Funded By		
43	Midlothian Council	38,234
43	NHS Lothian	96,250
86		134,484

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 Lothian 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:-

2015/16 £000's		2016/17 £000's
39.3	Staff	50.0
5.0	Audit Fee	25.0
44.3	Total	75.0

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

5. 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.

2015/16 £000's		2016/17 £000's
	NHS Lothian	96,250
0	Resource Transfer	-4,776
0	Social Care Fund	-3,505
0		87,969
	Midlothian Council	38,234
0	Resource Transfer	4,776
0	Social Care Fund	3,505
0	Total	46,515

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.

6. VAT

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

