

Report

Edinburgh Integration Joint Board Accounts 2018/19

Edinburgh Integration Joint Board

3 September 2019



Executive Summary

1. This paper presents the 2018/19 annual accounts for the Edinburgh Integration Joint Board (IJB).

Recommendations

2. The Edinburgh Integration Board is asked to:
 - i. note the final 'significant enhancements' red rated Internal Audit opinion for the year ended 31st March 2019 (see appendix 4);
 - ii. approve and adopt the annual accounts for 2018/19;
 - iii. delegate authority to the Chief Finance Officer to resolve and amend any minor textual issues in the annual report up to the date of sign off with Audit Scotland;
 - iv. authorise the designated signatories (Vice Chair, Chief Officer and Chief Finance Officer) to sign the annual report & accounts on behalf of the Board; and
 - v. authorise the Chief Finance Officer to sign the representation letter to the auditors, on behalf of the Board.

Background

3. Integration Joint Boards are required to produce annual accounts. Draft financial statements were presented to the May and June (2019) meetings of the Audit and Risk Committee and the IJB respectively. Following this they were subject to audit scrutiny over the summer months. This process has now concluded and the final accounts are presented for approval.
4. Ordinarily the accounts would have been scrutinised by the Audit and Assurance Committee in advance of being considered by the full board. The timing of the September IJB meeting has meant that, for this year only, this has not been possible. However as noted below there have been only marginal changes from the draft version discussed earlier in the year.

Main report

5. It is the responsibility of the Chief Financial Officer, as the appointed “proper officer”, to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom. In accordance with this guidance, draft financial statements were produced and presented to the Audit and Risk Committee and the IJB on 31st May and 21st June 2019 respectively. Over the summer months these were considered by Scott-Moncrieff, the appointed external auditors. This work has concluded and they are now in a position to give a proposed independent opinion on the financial statements and report on the arrangements in place to ensure the proper conduct of financial affairs and to manage performance and use of resources.

Audit and completion

6. The financial statements for the IJB for 2018/19 are attached as appendix 1 to this report. These reflect a number of minor changes to reflect issues identified through the audit process. Scott-Moncrieff intend to issue an unqualified opinion on the accounts.
7. The proposed Annual Audit Report from Scott-Moncrieff is attached at appendix 2. It should be noted that, following review by the IJB, there may be minor changes to the textual content from that of the circulated version. It is proposed that any such minor amendments be negotiated and agreed by the Chief Finance Officer up to the date the accounts are signed by the auditors.

Representation letter

8. International Standard on Auditing (ISA 580) requires external auditors to obtain written confirmation of representations received from management on matters material to the financial statements when other sufficient audit evidence cannot reasonably be expected to exist, before their audit report on the annual report & accounts is issued. A draft letter of representation is included at appendix 3

Internal audit opinion

9. The Chief Internal Auditor has produced an Internal Audit Annual Opinion 2018/19 for the IJB based on activity undertaken for the financial year ended 31st March 2019. This was presented to and discussed by the Audit and Assurance Committee on 27th August 2019 and is included as appendix 4 to this report.
10. This opinion is based on the outcomes of four audits included in the IJB’s 2018/19 internal audit annual plan and the status of open and overdue audit findings as at 31st March 2019. It is also informed by the outcomes of relevant Edinburgh Health and Social Care Partnership (Partnership) internal audit reports referred to the IJB by the City of Edinburgh Council Governance, Risk, and Best Value Committee and the NHS Lothian Audit and Risk Committee, and the status of any open and overdue Partnership audit findings. It states:

“Internal Audit considers that significant enhancements are required to the EIJB control environment and governance and risk management frameworks and is therefore reporting a ‘red’ rated opinion, with our assessment towards the middle of this category”.

Key risks

11. As set out in the internal audit opinion.

Financial implications

12. The financial results deal principally with the financial governance on operational management of existing resources and no resource implications arise specifically from this report.

Implications for directions

13. None.

Equalities implications

14. None.

Sustainability implications

15. None.

Involving people

16. The draft financial statements have been produced with the support and co-operation of both City of Edinburgh Council and NHS Lothian personnel.

Impact on plans of other parties

17. As above.

Background reading/references

18. None.

Report author

Judith Proctor

Chief Officer, Edinburgh Health and Social Care Partnership

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Appendices

Appendix 1	Edinburgh Integration Joint Board Annual Accounts 2018/19
Appendix 2	2018/19 Annual Audit Report to the Board and the Accounts Commission for Scotland
Appendix 3	Letter of representation
Appendix 4	Internal Audit annual opinion 2018/19



Edinburgh Integration Joint Board

Annual Accounts 2018/19

The Annual Accounts of Edinburgh Integration Joint Board for the year ended 31 March 2019, 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 2018/19 and Service Reporting Code of Practice.

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MANAGEMENT COMMENTARY

Introduction

This management commentary provides an overview of progress against the objectives and strategy of the Edinburgh Integration Joint Board (EIJB). It considers our financial performance for the year ended 31st March 2019 and gives an indication of the issues and risks which may impact upon our finances in the future.

Role and remit

EIJB was established as a body corporate by order of Scottish Ministers on 27th June 2015 under the Public Bodies (Joint Working) (Scotland) Act 2014. As a separate and distinct legal entity from City of Edinburgh Council and NHS Lothian, we are responsible for planning the future direction of and overseeing the operational delivery of integrated health and social care services for the citizens of Edinburgh. These services are largely delivered by the Edinburgh Health and Social Care Partnership (the Partnership) although some are managed by NHS Lothian on our behalf. These are referred to as “hosted” or “set aside” services. The arrangements for EIJB’s operation, remit and governance are set out in the integration scheme which has been approved by the City of Edinburgh Council, NHS Lothian and the Scottish Government.

EIJB meets monthly and has ten voting members: five elected members appointed by City of Edinburgh Council; and five NHS Lothian non-executive directors appointed by NHS Lothian. Non-voting members of the Board include the EIJB Chief Officer, Chief Finance Officer, representatives from the third sector and citizen members. Service and staffing representatives also sit on the Board as advisory members.

2018/19 was our third year of operation and we saw a number of changes in the management and governance arrangements with the arrival of a new Chief Officer, Head of Operations and Interim Head of Strategic Planning as well as some changes in voting and non-voting members. EIJB also began working with the Good Governance Institute (GGI) at the beginning of 2019 in a determined effort to strengthen its governance, decision making and in setting directions. Our work with the GGI will continue throughout the next reporting period.

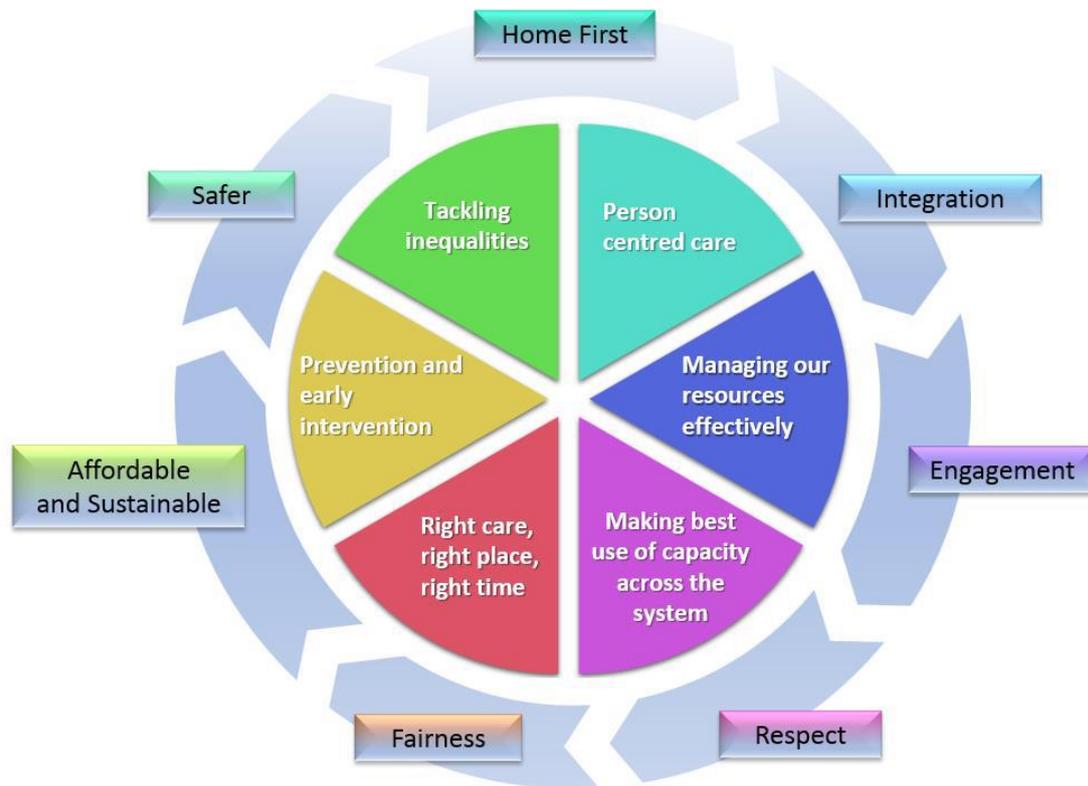
Strategic Plan

Edinburgh’s population of almost half a million, accounts for 9% of the total population of Scotland and is projected to increase faster than any other area of the country; with a higher rate of growth in some age groups than others. Whilst this growth has many social and economic advantages, it also presents challenges. Although a relatively affluent city, Edinburgh has areas of significant inequality and ‘deprivation’ and one of our key priorities is to lead, where possible, on tackling health and social inequalities. Using our budget of around £700 million, delegated from NHS Lothian and the City of Edinburgh Council, we fund community health and social care services, including GP practices and some elements of acute hospital services.

Our strategic plan sets out how these health and social care services will be developed and changed using the resources available to meet the changing needs of the population and achieve better outcomes for people. 2018/19 was the final year of implementing our first strategic plan and the IJB agreed the new plan, which will run until 2022, at its meeting in August 2019. This explains our intention to be the first in Scotland to embrace the “three conversations model” at scale, as a strategic and cultural framework. At its heart, the Strategic Plan seeks to deliver health and social care services in a way that supports people to be well at home, and in their community, for as long as possible. Providing first class acute hospital care only when medical intervention is required; aiming to provide the right care, at the right time, in the right place.

It also sets out how we will involve partners in the design of our performance and quality systems, to provide simple access for service users and build on the strong foundation of the 'good conversations' approach. This will require cultural change, a more integrated approach involving the evolution of fully integrated teams and a deliberate shift towards community-based services.

The figure below shows the seven guiding principles we have identified which must remain at the heart of our planning and operational delivery:



Operational Review

We published our third annual performance report at the end of July 2019 which provides a review of the progress both EIJB and the Partnership made during 2018/19 in terms of:

- delivery against the six priorities in our strategic plan 2016-19;
- delivery against the National Health and Wellbeing Outcomes; and
- our financial performance.

Although this has been a period where we have encountered challenges, we can also evidence gradual and prolonged improvements in performance across a range of areas. In the area of delayed discharge, a longstanding aspect of poor performance, we have driven the numbers down consistently against our planned trajectory. There has also been sustained improvement in the number of people waiting for assessment and waiting for packages of care. In primary care, we have seen positive improvements with a further 6,000 new citizens registered with our general practitioners, and a new, multi-disciplinary workforce beginning to be introduced into our primary care teams. Notably, pharmacists and mental health nurses have begun to make an impact and our link worker network - supporting practices in areas of economic deprivation - is being augmented with a strengthened welfare rights capacity through our third sector partners.

Whilst we welcome these improvements there is much still to do and we are not complacent. As integration in health and social care evolves, we continue to strive to provide the best level of care for the citizens of Edinburgh.

We continue to seek to find ways to improve outcomes for people and be innovative in our approaches against a backdrop of a rising population, changing patterns of health and care need and ongoing, significant financial pressure. It is still taking longer than we would wish for some of our citizens to be assessed and in receipt of the care they require but we are steadily improving. Fewer people are now delayed in an acute hospital when ready to go home, and those that are delayed, are delayed for a shorter time than previously. There is also much still to be done to support unpaid carers through our carers' strategy and improve integration in our workforce. These workstreams will maximise our resources and support our valued and hard-working staff. We will continue to focus on these areas in the coming year.

Annual Accounts 2018/19

The annual accounts report the financial performance of EIJB. The main purpose is to demonstrate the stewardship of the public funds that have been entrusted to us for the delivery of our vision and strategic priorities. The requirements governing the format and content of IJBs' annual accounts are contained in The Code of Practice on Local Authority Accounting in the United Kingdom (the Code). These annual accounts have been prepared in accordance with this code.

Financial Performance

The financial plan sets out how we ensure our limited resources are targeted to maximise the contribution to our objectives. A financial assurance process was undertaken on the 2018/19 funding contributions from NHS Lothian and the City of Edinburgh Council. Through this process a savings requirement of £26.6m against projected income of £633.2m was identified. Funding adjustments during the year increased this budget to £727.7m.

EIJB's financial performance for the year is presented in the comprehensive income and expenditure statement, which can be seen on page 20. The balance sheet (page 21) is also presented and sets out the liabilities and assets at 31st March 2019.

For the year we are reporting a surplus of £1.3m which brings the total value of the EIJB's reserve to £9.7m. We are in the process of agreeing how these will be applied in 2019/20 recognising the need to balance existing commitments, our ambitions for supporting transformational change and the requirement to balance the in year financial plan.

The in-year surplus was achieved by both the City of Edinburgh Council and NHS Lothian agreeing additional one off contributions: £7.5m from the Council and £3.0m from NHS Lothian. These additional payments reflect some of the significant and long standing financial pressures we face, notably:

- **Externally purchased services** (including care at home) continues to be the single most significant financial challenge facing the IJB with a reported in year overspend of £6.3m. Demographic factors continue to drive demand for these services, as this is also evidenced in the continuing growth in direct payments and individual service funds. This level of overspend is in line with financial projections reported throughout the year and has been factored into the baseline position for budget planning for the next financial year;
- NHS Lothian **set aside** budgets overspent by £2.6m in the year. Overall pressures in set aside budget accounts for the majority of the NHS position and this will be addressed in partnership with NHS Lothian and the 3 other IJBs in the area in 2019/20; and
- Delivery of **savings and recovery plans** remained a challenge during the year. We have since agreed a challenging programme of efficiency for 2019/20 and delivering this will be one of our key financial challenges.

It will be important moving forward to 2019/20 and future years that expenditure is managed within the financial resources available and this will require close partnership working between EIJB as service commissioner and the City of Edinburgh Council and NHS Lothian as providers of services.

Financial Outlook, Risks and Plans for the Future

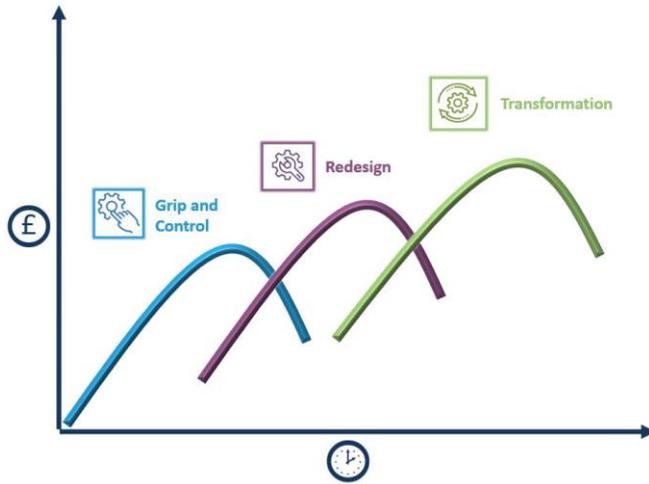
Like many other public sector organisations, we face significant financial challenges and, due to the continuing difficult national economic outlook and increasing demand for services, will need to operate within tight fiscal constraints for the foreseeable future. Pressures on public sector expenditure are expected to continue, both at a UK and Scottish level. As a result our partners in NHS Lothian and City of Edinburgh Council will face continued funding pressures for the foreseeable future. This in turn will impact on their ability to resource the functions delegated to the EIJB. In this financial climate, we recognise that returning to a balanced position will require major redesign of services, radical changes in thinking and approach, and the involvement of all partners and stakeholders.

Many of the considerable challenges we face have significant financial consequences and we face a complex landscape of interconnected risks. Examples include:

- increased demand for services alongside reducing resources;
- impact of demographic changes;
- delays in accessing appropriate services, including social care assessments, reviews and timely discharge from hospital;
- impact of welfare reform on the residents of Edinburgh;
- impact of the living wage and other nationally agreed policies;
- risk that the savings programme does not deliver within the required timescales or achieve the desired outcomes; and
- costs associated with meeting new legislative requirements without adequate resources being put in place.

These risks mean that money is tighter than ever before. It is therefore crucial that we focus on early intervention, prevention and recovery if we are to work within the total annual budget of just over £700 million. Moving into 2019/20, we are working to proactively address the funding challenges presented while, at the same time, improving outcomes for the residents of Edinburgh.

Our change programme is encapsulated within the strategic plan, but while we think about change in the medium to longer term, and put in place the programme and engage with our teams and stakeholders on our plans, we also have to make savings. Our approach is to focus in the immediate term mainly on “grip and control” measures. In the medium to longer term, we are confident of achieving efficiencies that assist in delivering financial balance through redesign and outputs from transformation through the change programme. The broad approach is set out in the following schematic:



Conclusion

Thus, the IJB faces the twin challenges of: increasing demand for services; and a climate of constrained financial resources. In this context, the development and implementation of a strategic approach to financial planning over the next 3–5 years is essential to support the sustainability of health and social care delivery in Edinburgh.

Judith Proctor
Chief Officer
September 2019

Ricky Henderson
Vice Chair
September 2019

Moira Pringle
Chief Finance Officer
September 2019

STATEMENT OF RESPONSIBILITIES

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENTS OF ACCOUNT

Responsibilities of the Edinburgh Integration Joint Board

The Edinburgh Integration Joint Board is required:

- to make arrangements for the proper administration of its financial affairs and to secure that it has an officer responsible for the administration of those affairs. In this Integration Joint Board, that officer is the Chief Finance Officer;
- to manage its affairs to achieve best value in the use of its 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); and
- to approve the Annual Accounts.

I confirm that these Annual Accounts were approved for signature by the Edinburgh Integration Joint Board on 3rd September 2019.

Ricky Henderson
Vice Chair of the Edinburgh Integration Joint Board
September 2019

Responsibilities of the Chief Finance Officer

As Chief Finance Officer, I am responsible for the preparation of the EIJB's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice"), is required to give a true and fair view of the financial position of the EIJB at the financial year end and its income and expenditure for the year then ended.

In preparing the financial statements I am responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgements and estimates that are reasonable and prudent; and
- complying with the Code of Practice and legislation

I am also required to:

- keep proper accounting records which are up to date; and
- take reasonable steps to ensure the propriety and regularity of the finances of the EIJB.

Statement of Accounts

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Edinburgh Integration Joint Board at the reporting date, and its income and expenditure for the year ended 31 March 2019.

Moira Pringle
Chief Finance Officer
September 2019

REMUNERATION REPORT

The Chief Officer of the Edinburgh Integration Joint Board (EIJB) is a joint appointment between City of Edinburgh Council, NHS Lothian and the EIJB. The terms and conditions, including pay for the post, are those set by the City of Edinburgh Council, who employ the post holder directly and recharge the costs to EIJB and NHS Lothian.

The EIJB Chief Financial Officer is appointed by the EIJB and is supplied without charge by NHS Lothian and the associated costs are included in the support costs disclosed in note 4.

The voting members of the EIJB are appointed by the respective partner bodies (NHS Lothian and City of Edinburgh Council). The voting members from NHS Lothian and City of Edinburgh Council in the period April 2018 to March 2019 were:

M. Ash	NHS	R. Aldridge	CEC
M. Hill	NHS	I. Campbell (<i>left 06/02/19</i>)	CEC
C. Hirst (Vice Chair)	NHS	G. Gordon (<i>appointed 07/02/19</i>)	CEC
A. Joyce (<i>left 31/07/18</i>)	NHS	R. Henderson (Chair)	CEC
A. McCann	NHS	M. Main	CEC
R. Williams (<i>appointed 01/08/18</i>)	NHS	S. Webber	CEC

The current voting members from NHS Lothian and City of Edinburgh Council are:

C. Hirst (Vice Chair)	NHS	R. Henderson (Chair)	CEC
M. Ash	NHS	R. Aldridge	CEC
M. Hill	NHS	G. Gordon	CEC
A. McCann	NHS	M. Main	CEC
R. Williams	NHS	S. Webber	CEC

Councillor Henderson and NHS Non-Executive Director C. Hirst will finish their rotations as Chair and Vice Chair respectively, effective 27th June 2019. As of this date NHS Non-Executive Director A. McCann will take the position of Chair, Councillor Henderson will take the position of Vice Chair, and C. Hirst will step down as a Board member. Voting members are able through their parent bodies to reclaim any expenses. In the year to 31 March 2019, no expense claims were made in relation to work on the EIJB. The Chair of the EIJB was in receipt of additional remuneration in 2018/19 relating to his duties for the EIJB of £14,745 (£8,464 2017/18). The Vice-Chair of the EIJB was in receipt of additional remuneration in 2018/19 relating to her duties for the EIJB of £8,416 (£8,251 2017/18). No allowances were paid to other voting members during the year. The remuneration and pension benefits received by all voting members in 2018/19 are disclosed in the remuneration reports of their respective employer.

Remuneration Paid to Senior Officers

	Year to 31/03/2019			Year to 31/03/2018
	Salary, fees and allowances (£)	Total remuneration (£)	Full Year Effect (£)	Total remuneration (£)
R McCulloch-Graham, EIJB Chief Officer (to 28/08/2017)	-	-	-	137,334
M Miller, EIJB Chief Officer (from 29/08/2017 to 30/06/2018)	37,998	37,998	151,990	88,940
J Proctor, EIJB Chief Officer (from 01/05/2018)	146,414	146,414	151,990	n/a
M Pringle, EIJB Chief Finance Officer	82,711	82,711	-	77,092

The above salary fees and allowances figure for J. Proctor include relocation costs of £7k.

Pension benefits

Pension benefits for the Chief Officer and Chair of the EIJB are provided through the Local Government Pension Scheme (LGPS). Pension benefits for the Chief Finance Officer are provided through the NHS New Pension Scheme (Scotland) 2015.

Local Government Pension Scheme

For local government employees, the Local Government Pension Scheme LGPS became a career average pay scheme on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The scheme's normal retirement age is linked to the state pension age (but with a minimum age of 65).

From 1 April 2009, a five-tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership.

The contribution rates for 2018/19 were as follows:

<u>Whole Time Pay</u>	<u>Contribution rate</u>
On earnings up to and including £21,300 (2017/18 £20,700)	5.50%
On earnings above £21,300 and up to £26,100 (2017/18 £20,700 to £25,300)	7.25%
On earnings above £26,100 and up to £35,700 (2017/18 £25,300 to £34,700)	8.50%
On earnings above £35,700 and up to £47,600 (2017/18 £34,700 to £46,300)	9.50%
On earnings above £47,600 (2017/18 £46,300)	12.00%

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

The value of the accrued benefits has been calculated based on the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

NHS Pension Scheme (Scotland) 2015

The NHS Board participates in the NHS Superannuation Scheme (Scotland). The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019. The NHS board has no liability for other employers' obligations to the multi-employer scheme. In 2017-18 members paid tiered contribution rates ranging from 5.2% to 14.7% of pensionable earnings.

For NHS employees, the NHS Superannuation Scheme became a career average pay scheme from 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

Accrued Benefits

The pension figures shown below relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

The pension entitlements of senior officers and current voting members for the period to 31 March 2019 are shown in the table below, together with the employer contribution made to the employee's pension during the year. Where accrued pension benefits are not shown in the table below, this indicates the employee has been a member of the pension scheme for less than 2 years.

	Employer In-Year Contribution			Accrued Pension Benefits	
	For year to 31/03/19 £	For year to 31/03/18 £		As at 31/03/19 £000	Difference from 31/03/18 £000
R McCulloch-Graham, EIJB Chief Officer (to 28/08/2017)	-	13,090	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M Miller, EIJB Chief Officer (from 29/08/2017 to 30/06/2018)	8,196	17,877	Pension	61	6
			Lump Sum	115	10
J Proctor, EIJB Chief Officer (from 01/05/2018)	30,053	n/a	Pension	n/a	n/a
			Lump Sum	n/a	n/a
M Pringle, EIJB Chief Finance Officer	12,309	11,487	Pension	25	10
			Lump Sum	56	26
R Henderson, Chair	7,010	5,314	Pension	6	1
			Lump Sum	2	0

The Vice Chair of the EIJB is not a member of the Local Government Pension Scheme or the NHS Pension scheme; therefore, no pension benefits are disclosed.

All information disclosed in the tables in this remuneration report will be audited by Scott-Moncrieff. Scott-Moncrieff will review other sections of the report to ensure that they are consistent with the financial statements.

Judith Proctor
Chief Officer
September 2019

Ricky Henderson
Vice Chair
September 2019

ANNUAL GOVERNANCE STATEMENT

Annual Governance Statement

Scope of Responsibility

The Edinburgh Integration Joint Board (EIJB) is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for, and that arrangements are in place to secure best value.

In discharging this responsibility, the EIJB and the Chief Officer have put in place arrangements for governance which include robust internal controls, including the management of risk.

Governance Framework

The governance framework comprises the systems and processes, culture and values, by which the EIJB is controlled and directed. It enables the EIJB to monitor the progress with its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.

A key element of the EIJB's governance framework is its formal committee and sub-groups. These groups provide additional layers of governance, scrutiny and rigour to the business of the EIJB. Their different roles, covering the wide spectrum of the EIJB's business, allow increased scrutiny and monitoring and the focus and capability to provide the EIJB with the necessary assurance.

Board and Committee Structures

The EIJB has been responsible for health and social care functions in Edinburgh since 1 April 2016. The Board consists of 10 voting members of which five are non-executive directors of NHS Lothian and five are councillors from the City of Edinburgh Council. There are also a number of non-voting members both appointed due to the statutory requirements and to provide more varied experience and knowledge to the Board. The chair of the Board rotates from NHS Lothian and the City of Edinburgh Council every two years.

The Strategic Planning Group (SPG) was formally established in May 2016. It is chaired by the vice-chair of the EIJB.

The Audit and Risk Committee is a key component of creating a strong governance culture. Its role is to assist the EIJB in ensuring that there is a robust framework in place to provide assurance on risk management, governance and internal control. It also scrutinises internal and external audits and can make recommendations to the EIJB on any matter within its remit.

A work programme including annual approval of IJB accounts, internal audit charter, internal audit plan and chief internal auditor opinion has been established. The Committee also annually considers the external audit plan and external auditor's opinion.

The EIJB has also retained the Professional Advisory Group. This group was created in 2012 prior to the development of IJB's under the Public Bodies (Scotland) Act and provides professional guidance to the EIJB. It has membership on the EIJB and the Strategic Planning Group

A Lothian Integrated Care Forum was established in 2019 with its first meeting set for April 2019. This is a forum for the four IJBs in the Lothian area with NHS Lothian and four Councils to discuss matters of similar interest and take a more collective approach to strategic matters. The Chair and Vice-Chair of the Board will represent the EIJB on the forum.

The Chief Officer commissioned an independent review of governance by the Good Governance Institute (GGI) in May 2018 which looked at the EIJB's structures and processes. The GGI reported their findings in December 2018 concluding that the EIJB did need to take action to strengthen its governance.

The EIJB agreed to implement the recommendations of the GGI which would include a major overhaul of the committees and sub-groups of the EIJB and which aimed to provide further clarity on lines of accountability and reporting with a view to streamlining reporting arrangements. The review also set out an escalation framework. A further programme of development will now take place across 2019/20 to implement recommendations.

Internal Controls

As required by the legislation, the EIJB has appointed a Chief Officer and a Chief Finance Officer. It has also appointed a Chief Internal Auditor, a Standards Officer and a Data Protection Officer.

The EIJB has agreed the following governance documentation:

- Financial Regulations – Section 95 of the Local Government (Scotland) Act 1973 requires all IJBs to have adequate systems and controls in place to ensure the proper administration of their financial affairs. The EIJB has agreed a set of financial regulations which are supported by a series of financial directives and instructions with clear lines of delegation to the Chief Finance Officer to carry out that function.
- A Code of Conduct for the members of the EIJB has been agreed and made available to all members. Compliance with the Code of Conduct is regulated by the Standards Commission for Scotland. Training is provided to members on the Code of Conduct.
- A set of Standing Orders has been agreed which sets out the rules governing the conduct and proceedings at the EIJB and its committees. The Standing Orders include rules on the notice of meetings and how voting and debate should be conducted.

The EIJB and the Audit and Risk Committee both have a rolling actions log which helps the groups monitor the implementation of decisions.

A deputation process has been agreed by the EIJB which allows and encourages groups to directly address the Board on issues under consideration.

In 2018/19 the EIJB amended the risk register by dividing it into EIJB and Edinburgh Health and Social Care Partnership risks. This allowed the EIJB to focus on its roles and responsibilities, concentrating on risks regarding strategy, scrutiny and performance. This was rolled out in the previous year with risks being classified against strategic planning and commissioning, issue of directions and management and role of the IJB.

A communications plan was agreed in February 2019 which aimed to communicate the role of the EIJB, improve public access to the Board, increase stakeholder engagement and support the ongoing development of EIJB members through an induction and development programme.

In May 2018 a tactical resilience plan was rolled out which aimed to address risks and safety issues whilst promoting multi-agency co-operation.

A Quality and Improvement Group is in place which is multi-disciplinary and spans Health and Social Care Partnership services and those services commissioned or purchased externally.

The Health and Social Care Partnership Procurement Board exercises oversight of all proposals to award, extend or terminate contracts with third party providers.

A financial plan is in place which focuses on the impacts of the financial settlements and outlines inherent risks. A new plan is submitted annually.

Insurance against legal liability for neglect, error or omission by any employee in the performance of their duties in relation to work on the IJB is arranged through CNORIS (NHS Lothian's self-insurance scheme). This is reviewed on an annual basis.

A Savings Governance Board has been established that oversees financial savings and is chaired by the Chief Officer. It monitors progress against targets and identifies appropriate remedial action.

A health and safety group has been established with a cross-section of staff in the Partnership making up its membership.

The Edinburgh Integration Joint Board (EIJB) has information governance responsibilities in relation to strategic planning and delegated functions which it determines and directs with its partners. To achieve appropriate governance in this area, a memorandum of understanding (MOU) has been agreed between the EIJB, NHS Lothian and the City of Edinburgh Council that ensures responsibilities are clearly set out and understood. A pan-Lothian information sharing protocol has also been put in place.

A streamlined programme structure for delivering real transformation, involvement of partners and stakeholders, alongside a refreshed governance structure was agreed in early 2019. This single programme would include a delivery mechanism for the strategic commission plans, improvement planning in response to the Joint Inspection report for Older People Services and the associated action plan and the financial savings and efficiencies programme.

A performance report is considered monthly by the Health and Social Care Partnership management.

Review of Effectiveness

The EIJB has responsibility for reviewing the effectiveness of the governance arrangements including the internal controls.

This review of effectiveness is informed by:

- The Chief Officer annual assurance for the EIJB and the health and social care Partnership.
- Officer management activities;
- The Chief Internal Auditor's annual report and internal audit reports;
- Reports from the Council's external auditor; and
- Reports by external, statutory inspection agencies.

The evidence of effectiveness from these sources includes:

- The GGI identified that there had been a natural maturing of the governance of the EIJB and that a significant overhaul of the EIJB's committee structure was now necessary;
- The GGI identified a lack of an EIJB code of governance which sets out the governing principles of the EIJB;
- Standing orders are reviewed annually in a report to the EIJB, to ensure they are up to date and relevant;
- The Health and Social Care Partnership's contract management framework is subject to annual internal review;
- Internal audit identified a lack of committee oversight of performance since the performance and quality sub-group was suspended. Performance objectives had also not been identified for all directions;
- Performance was considered at the Board, but changes are being made to provide a more robust structure that will give greater assurance to the EIJB. A performance and delivery committee is set to be created which will provide more in-depth monitoring and scrutiny of performance and a new performance framework is being developed;
- The annual performance report was presented to the EIJB in August 2019 and published by 31st July 2019 as per the requirements of the legislation;
- The Care Inspectorate and Healthcare Improvement Scotland visited the Partnership and produced a Progress Review of Older People's Services in Edinburgh. This highlighted some areas of reasonable or good progress but on the whole identified limited progress against the majority of the recommendations in the original report. The recast action plan, which seeks to ensure a more strategic approach to improvement, aligned to the partnership's transformation and change programme was agreed by EIJB in February 2019;
- A series of resilience workshops took place during the year to further develop individual service area operational resilience plans based on the tactical resilience plan;
- A quarterly internal audit update detailing internal audit activity on behalf of the EIJB is submitted to the Audit and Risk Committee;
- The Chief Internal Auditor provides an annual audit opinion. For 2018/19 this is: "Internal Audit considers that significant enhancements are required to the EIJB control environment and governance and risk management frameworks and is therefore reporting a 'red' rated opinion, with our assessment towards the middle of this category". This opinion is based on the outcomes of four audits included in the EIJB 2018/19 Internal Audit annual plan and the status of open and overdue EIJB IA findings as at 31 March 2019. It is also informed by the outcomes of relevant Edinburgh Health and Social Care Partnership (the Partnership) internal audit reports referred to the EIJB by the City of Edinburgh Council Governance, Risk, and Best Value Committee and the NHS Lothian Audit and Risk Committee, and the status of any open and overdue Partnership IA findings.
- Progress in implementing recommendations from previous audit reports has been closely tracked by the Chief Officer and the Audit and Risk Committee. However, a validation exercise in late 2017/early 2018 identified that there were some historic audit actions that had not been implemented. An action plan has been created to address the outstanding actions;
- Regular finance monitoring reports are presented to the EIJB and Council and NHS committees. Monitoring arrangements have been effective in identifying variances and control issues and taking appropriate action. This has included allocating funds to offset unachieved saving plans;
- An EIJB induction is in place for all new voting and non-voting members;

- A records management plan was agreed in December 2018 with the scrutiny and oversight of the improvement plan being delegated to the Audit and Risk Committee;
- Data protection impact assessments were being prepared to document information governance operational processes and ensure significant control gaps were identified and resolved;
- Internal Audit had identified that information governance processes were not sufficiently mature to support data sharing although there was an acknowledgement that work was ongoing to improve this situation;
- An action plan was created to track improvements following on from the review carried out by the Ministerial Strategic Group;
- After a period of temporary chairs, a new permanent Audit and Risk Committee chair was appointed; and
- A comprehensive grants programme for health and social care was delivered. This was a complex piece of work to ensure the allocation of funds was fair, accessible and best aligned with EIJB's strategy. The programme with a budget of £14.1m was significantly oversubscribed with 152 applications requesting £31m.

Previous Year's Improvement Actions

Issue		Responsible Party	Status
1	Further improvement and development of the mitigating actions for the new separate EIJB Risk Register	Chief Officer	Complete
2	Development of an Integrated Resilience Management Strategy for the Health and Social Care Partnership	Chief Officer	Complete
3	Review and changes to responsibilities of sub groups regarding performance monitoring	Chief Officer	Complete
4	Establishment of an Improvement Programme Board to oversee non-savings related work for the Health and Social Care Partnership	Chief Officer	Complete
5	Appointment of an Audit and Risk Committee Chair	Chief Officer	Complete

Further Improvement – Action Plan

	Issue	Responsible Party	Reporting Date
1	Good Governance Institute Review Implementation	Chief Officer	March 2020
2	Creation of Governance Handbook to support the EIJB and its members	Chief Officer	October 2019
3	Review of Integration Scheme	Chief Officer	March 2020
4	Review of Directions Policy	Chief Officer	August 2019
5	Agreement of a Reserves Policy	Chief Officer	August 2019
6	Development of an integrated performance framework	Chief Officer	October 2019

Items 4 and 5 on this action plan were agreed by EIJB in August 2019, in line with the deadline.

Certification

It is our opinion that in light of the foregoing, reasonable assurance, subject to the matters raised above, can be placed on the effectiveness and adequacy of the EIJB’s systems of governance.

Conclusion

We remain committed to monitoring implementation as part of the next annual review.

Judith Proctor
Chief Officer
 September 2019

Ricky Henderson
Vice Chair
 September 2019

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

2017/18			2018/19		
Net Expenditure £000		Note	Gross expenditure £000	Gross income £000	Net Expenditure £000
	Health Services	8			
250,957	Core services		264,868	0	264,868
86,071	Hosted services		82,128	0	82,128
49,623	Non-cash Limited		52,444	0	52,444
99,410	Set aside services		93,577	0	93,577
1,257	Corporate services		1,268	0	1,268
487,318			494,285	0	494,285
	Social Care Services	8			
124,670	External purchasing		137,682	0	137,682
34,616	Care at home		32,540	0	32,540
12,698	Day services		15,304	0	15,304
22,457	Residential care		20,825	0	20,825
13,191	Social work assessment and care management		14,601	0	14,601
527	Corporate services		558	0	558
8,918	Other		10,184	0	10,184
217,077			231,694	0	231,694
420	Corporate services	3	415	0	415
704,815	Cost of services		726,394	0	726,394
-709,477	Taxation and non-specific grant income and expenditure	2	0	-727,736	-727,736
-4,662	Surplus on provision of services		726,394	-727,736	-1,342

BALANCE SHEET

The Balance Sheet shows the value, as at 31 March 2019, of the assets and liabilities recognised by the Board. The net assets of the Board are matched by the reserves held.

BALANCE SHEET AS AT 31 MARCH 2019			
31/03/2018		Notes	31/03/2019
£000			£000
	Current assets		
8,378	Short term debtors	4	9,713
	Current liabilities		
-26	Short term creditors	5	-19
8,352	Net assets		9,694
-8,352	Usable reserves	MIRS	-9,694
-8,352	Total reserves		-9,694

I certify that the statement of accounts present a true and fair view of the financial position of the Edinburgh Integration Joint Board as at 31 March 2019 and its income and expenditure for the period.

Moira Pringle
Chief Finance Officer
 September 2019

MOVEMENT IN RESERVES

This statement shows the movement in the year on the different reserves held by the Edinburgh Integration Joint Board.

	31/03/2019	31/03/2018
	£000	£000
Usable reserves – General Fund brought forward	-8,352	-3,690
Surplus on the provision of services	-1,342	-4,662
Total comprehensive income and expenditure	-9,694	-8,352
Balance, as at 31 March, carried forward	-9,694	-8,352

NOTES TO ACCOUNTS

1. ACCOUNTING POLICIES

1.1 General Principles

The Annual Accounts for the year ended 31 March 2019 have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) and the Service Reporting Code of Practice. This is to ensure that the accounts 'present a true and fair view' of the financial position and transactions of the Edinburgh Integration Joint Board (EIJB).

1.2 Accruals of Income and Expenditure

The revenue accounts have been prepared on an accruals basis in accordance with the Code of Practice

1.3 VAT Status

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

1.4 Going Concern

The accounts are prepared on a going concern basis, which assumes that the EIJB will continue in operational existence for the foreseeable future.

1.5 Funding

Edinburgh Integration Joint Board receives contributions from its funding partners, namely NHS Lothian and the City of Edinburgh Council to fund its services.

Expenditure is incurred in the form of charges for services provided to the EIJB by its partners.

1.6 Provisions, Contingent Liabilities and Assets

Contingent assets are not recognised in the accounting statements. Where there is a probable inflow of economic benefits or service potential, this is disclosed in the notes to the financial statements.

Contingent liabilities are not recognised in the accounting statements. Where there is a possible obligation that may require a payment, or transfer of economic benefit, this is disclosed in the notes to the financial statements

The value of provisions is based upon the Board's obligations arising from past events, the probability that a transfer of economic benefit will take place and a reasonable estimate of the obligation.

1.7 Employee Benefits

The Chief Officer is regarded as an employee of the EIJB, although her contract of employment is with City of Edinburgh Council. The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Scotland) Regulations 1998, as amended. The post is

funded by the EIJB however the statutory responsibility for employer pension liabilities rests with the employing partner organisation (City of Edinburgh Council).

The Chief Financial Officer is regarded as an employee of the EIJB, although her contract of employment is with NHS Lothian. NHS Lothian participates in the NHS Superannuation Scheme (Scotland) which is a defined benefit statutory public service pension scheme, with benefits underwritten by the UK Government.

The remuneration report presents the pension entitlement attributable to the posts of the EIJB Chief Officer, Chief Financial Officer and Chair of the EIJB although the EIJB has no formal ongoing pension liability. On this basis, there is no pension liability reflected on the EIJB balance sheet for these posts.

1.8 Cash and Cash Equivalents

The EIJB does not hold a bank account or any cash equivalents. Payments to staff and suppliers relating to delegated services will be made through cash balances held by the partner organisations (NHS Lothian and City of Edinburgh Council). On this basis, no Cash Flow statement has been prepared in this set of Annual Accounts.

1.9 Reserves

The Integration Joint Board is permitted to set aside future amounts of reserves for future policy purposes. These reserves normally comprise: funds which are set aside for specific purposes; and funds which are not earmarked for specific purposes but are set aside to deal with unexpected events or emergencies. They are created by appropriating amounts out of revenue balances. When expenditure to be funded from a reserve is incurred, it is charged to the appropriate service in that year and thus included in the Comprehensive Income and Expenditure Statement. Movements in reserves are reported in the Movement of Reserves Statement.

The EIJB has one usable reserve, the General Fund which can be used to mitigate financial consequences of risks and other events impacting on the Boards resources. The utilisation of the monies within this fund is agreed by EIJB.

1.10 Support Services

Support services are not delegated to the EIJB through the Integration scheme, and are instead provided by NHS Lothian and the City of Edinburgh Council free of charge, as a 'service in kind'. Support services provided mainly comprise the provision of financial management, human resources, legal services, committee services, ICT, payroll and internal audit services.

2. RELATED PARTY TRANSACTIONS

The Edinburgh Integration Joint Board was established on 27 June 2015 as a joint board between City of Edinburgh Council and NHS Lothian. The income received from the two parties was as follows:

	31/03/2019	31/03/2018
	£000	£000
NHS Lothian	-518,177	-511,593
City of Edinburgh Council	-209,001	-197,357
Total	-727,178	-708,950

Expenditure relating to the two parties was as follows;

	31/03/2019	31/03/2018
	£000	£000
NHS Lothian	494,521	487,561
City of Edinburgh Council	231,273	216,697
Total	725,794	704,258

Details of creditor and debtor balances with the partner bodies are set out in the subsequent notes (4 and 5).

3. CORPORATE EXPENDITURE

	31/03/2019	31/03/2018
	£000	£000
Staff Costs	373	391
Other Fees	3	3
Audit Fees	39	26
Total	415	420

Staff costs relate to the Chief Officer, Chief Finance Officer, EIJB Chair and Vice-Chair.

EIJB is in receipt of NHS Lothian and City of Edinburgh Council support services. NHS Lothian and the City of Edinburgh Council have agreed to provide support services, without an onward recovery. Support services to a value of £0.754m (£0.709m 2017/18) have been provided.

4. SHORT TERM DEBTORS

	31/03/2019	31/03/2018
	£000	£000
Other Local Authorities	9,713	8,378
Total	9,713	8,378

5. SHORT TERM CREDITORS

	31/03/2019	31/03/2018
	£000	£000
Other Bodies	-19	-26
Total	-19	-26

6. POST BALANCE SHEET EVENTS

No material events have occurred post the balance sheet reporting date.

7. CONTINGENT LIABILITIES and ASSETS

There are no contingent liabilities or assets to disclose.

8. SEGMENTAL REPORTING

Expenditure on services commissioned by the EIJB from its partner agencies is analysed over the following services:

	2018/19 Actual Expenditure £000	2017/18 Actual Expenditure £000
SERVICES PROVIDED BY NHS Lothian		
Core services		
Community Allied Health Professionals	10,205	6,133
Community hospitals	11,478	11,303
District nursing	10,817	10,666
General medical services	79,472	75,269
Prescribing	80,573	82,172
Other core services	72,323	65,414
Total core services	264,868	250,957
Hosted services		
Mental health, substance misuse and learning disabilities	41,951	45,928
Other hosted services	41,445	41,400
Total hosted services	83,396	87,328
Non- Cash Limited		
Dental	28,003	26,684
Ophthalmology	9,399	9,253
Pharmacy	15,042	13,686
Total Non-Cash Limited	52,444	49,623
Set aside services		
General medicine	26,164	24,972
Geriatric medicine	13,409	13,100
Junior medical	14,105	13,757
Other set aside services	39,899	47,581
Total set aside services	93,577	99,410
TOTAL SERVICES PROVIDED BY NHS Lothian	494,285	487,318
SERVICES PROVIDED BY CITY OF EDINBURGH COUNCIL		
External purchasing	137,682	124,670
Care at home	32,540	34,616
Day services	15,304	12,698
Residential care	20,825	22,457
Social work assessment & care management	14,601	10,452
Other services provided by City of Edinburgh Council	10,742	12,184
TOTAL SERVICES PROVIDED BY CITY OF EDINBURGH COUNCIL	231,694	217,077
Useable Reserves	-9,694	-8,352
TOTAL ALL SERVICES	716,285	696,043

9. FUNDING ANALYSIS

The expenditure and funding analysis shows how annual expenditure is used and funded from resources in comparison with how those resources are consumed or earned in accordance with generally accepted accounting practice. In essence this demonstrates the difference between expenditure on an accounting basis and a funding basis. For EIJB no such difference applies and the information required is disclosed elsewhere in the financial statements

10. INDEPENDENT AUDITOR'S REPORT

The Statement of Accounts is subject to audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973.

The Auditor appointed for this purpose by the Accounts Commission for Scotland is:

Nick Bennett
For and on behalf of Scott-Moncrieff
Scott-Moncrieff
Exchange Place 3
Semple Street
EDINBURGH
EH3 8BL



Edinburgh Integration Joint Board

*2018/19 Annual Audit Report to members of
Edinburgh Integration Joint Board and the Controller
for Audit*



September 2019





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1. Key messages





Annual accounts audit

Edinburgh Integration Joint Board's (the IJB's) annual accounts for the year ended 31 March 2019 are due to be approved by the Board on 3 September 2019.

We intend to report within our independent auditor's report an unqualified opinion on the annual accounts and on other prescribed matters and that there are no matters which we are required to report by exception.

Wider scope audit

Financial sustainability

The IJB continues to face significant financial pressures, both immediate and medium to longer term. Recurring financial balance cannot be achieved without the delivery of a sustainable transformational change.

The Board has considered high level projections for the next five-year period. Projections forecast savings gaps of £29million in 2020/21, increasing to £76.4 million in 2023/24. There is now an urgent need to work with partners to develop a strategic approach to financial planning in both the immediate and medium to longer term.

Financial management

The IJB was able to breakeven in 2018/19 but relied on non-recurrent funding from partners to address continuing areas of overspend.

As reported to the Board in June 2019, the 2019/20 financial plan remains unbalanced by £7.1 million despite a challenging efficiencies programme and the release of unallocated reserves. The IJB is continuing to work with partner bodies to address the funding gap.

Governance and transparency

The Board initiated an external review of their governance arrangements in 2018/19. This concluded that further action was required to strengthen governance and identified a series of 18 recommendations. Key priorities are a review of existing committee structures, which has been completed, and the development of a Governance Handbook.

The Progress Review of the Joint Inspection of Older People's Services was critical of the partnership's progress in addressing recommendations and the pace of improvement, assessing that good or reasonable progress had only been made for three out of the 17 recommendations raised in May 2017.

Value for money

The IJB is continuing to develop and embed a robust performance management framework. The establishment of a Performance and Delivery Committee in June 2019 is a key step in achieving this and we will continue to monitor progress in 2019/20.

The IJB continues to perform poorly against a number of key indicators including delayed discharges. The IJB has recognised these areas of underperformance and is intending to address these through implementation of the Strategic Plan 2019-22.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
September 2019



2. *Introduction*

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Edinburgh IJB for 2018/19.

We carry out our audit in accordance with Audit Scotland’s Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

At Edinburgh IJB, we have designated this year the Board as “those charged with governance”.



Introduction

1. This report summarises the findings from our 2018/19 audit of Edinburgh IJB
2. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2018/19 annual accounts;
 - a review of the IJB's arrangements for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



3. The IJB are responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. We would like to thank all members of the IJB's management and those members of staff from the Partnership, Council and NHS who have been involved in our work, for their co-operation and assistance during our audit.
5. We have complied with Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

Adding value through the audit

7. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the IJB through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Confirmation of independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.



Feedback

8. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX.
9. While this report is addressed to the IJB, it will also be published on Audit Scotland's website www.audit-scotland.gov.uk.



3. *Annual Accounts*

The IJB's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2018/19 annual accounts.



Annual Accounts

An unqualified audit opinion on the annual accounts

The annual accounts for the year ended 31 March 2019 are due to be considered and approved by the Board on 3 September 2019. We intend to report unqualified audit opinions within our independent auditor's report.

Overall Conclusion

An unqualified audit opinion on the annual accounts

10. The annual accounts for the year ended 31 March 2019 are due to be considered by the Board on 3 September 2019. We intend to report within our independent auditor's report:
 - An unqualified opinion on the annual accounts; and
 - An unqualified opinion on other prescribed matters.
11. We are also satisfied that there are no matters which we are required to report by exception.

Good administrative processes were in place

12. We received unaudited annual accounts and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to the Chief Finance Officer and the Finance team at City of Edinburgh Council for their assistance.

Our assessment of risks of material misstatement

13. The assessed risks of material misstatement described in Exhibit 2 are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual accounts is not modified with respect to any of the risks described in Exhibit 2.



Exhibit 2 – Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. Management override

In any organisation, there exists a risk that management has the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

Excerpt from the 2018/19 External Audit Plan

14. We have not identified any indication of management override in the year. We have reviewed the IJB's accounting records and obtained evidence to ensure that transactions were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Under ISA (UK) 240- *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the IJB could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

15. At the planning stage we concluded that for contributions received from the IJB's funding partners, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. This position has been reviewed throughout the audit and our conclusion remains appropriate.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

Excerpt from the 2018/19 External Audit Plan

16. We have evaluated each type of expenditure transaction and documented our conclusions. We gained reasonable assurance over the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion we carried out testing to confirm that the IJB's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.



Our application of materiality

17. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.
18. Our initial assessment of materiality for the financial statements was £10million. On receipt of the 2018/19 unaudited annual accounts, we reassessed materiality and concluded that this level remained appropriate.
19. Our assessment of materiality is set with reference to gross expenditure and equates to approximately 1.6% of the IJB’s 2018/19 gross expenditure. We consider this to be the principal consideration for the users of the financial statements when assessing the financial performance.

Performance materiality

20. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.
21. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds are set out in the table below:

	Area risk assessment		
	High	Medium	Low
Performance materiality	4.5	5.5	7.0

22. We agreed with the Audit and Risk Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of 2% of the overall materiality figure, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds.

Audit differences

23. We are pleased to report that there were no material adjustments or unadjusted differences to the unaudited annual accounts.

An overview of the scope of our audit

24. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in March 2019. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the IJB. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
25. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
26. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work we have applied the concept of materiality, which is explained earlier in this report.

Legality

27. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual accounts. Our audit procedures included the following:
 - Reviewing minutes of relevant meetings;
 - Enquiring of senior management the position in relation to litigation, claims and assessments; and
 - Performing detailed testing of transactions and balances.
28. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.



Other matters identified during our audit

29. During the course of our audit we noted the following:

The Local Authority Accounts (Scotland) Regulations 2014

30. As part of our audit we reviewed the IJB's compliance with the Local Authority Accounts (Scotland) Regulations 2014, in particular with respect to regulations 8 to 10¹ as they relate to the annual accounts. Overall we concluded that appropriate arrangements are in place to comply with these Regulations.

Management commentary

31. The Local Authority Accounts (Scotland) Regulations 2014 require local authority bodies to include a management commentary within the annual accounts. The management commentary is intended to assist readers in understanding the annual accounts and the organisation that has prepared them.
32. As auditors we are required to read the management commentary and express an opinion as to whether it is consistent with the annual accounts. We have concluded that the management commentary is consistent with the annual accounts and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

Annual Governance Statement

33. The Annual Governance Statement discloses the rationale for internal audit's 'red'-rated opinion and other areas of weakness during the year, such as the outcome from the Good Governance Institutes review and the areas of concern raised by the joint inspection of services for older people progress report. Subject to the concerns disclosed, the IJB deemed that reasonable assurance can be placed on the effectiveness and adequacy of the systems of governance.
34. We are satisfied that the governance statement within the annual accounts is consistent with the financial statements and that report has been

prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016.

Remuneration report

35. Our independent auditor's report confirms that the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Qualitative aspects of accounting practices and financial reporting

36. During the course of our audit, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the annual accounts. The following observations have been made:

¹ Regulations 8 to 10 relate to the preparation and publication of unaudited accounts, notice of public right to inspect and object to the accounts and consideration and signing of the audited accounts.



Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	The accounting policies, which are disclosed in the annual accounts, are considered appropriate to the IJB.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the annual accounts.
The appropriateness of the going concern assumption	We have reviewed the financial forecasts for 2019/20. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that the IJB will continue to operate for at least 12 months from the signing date.
The potential effect on the annual accounts of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the annual accounts.
The extent to which the annual accounts have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the management commentary or material inconsistencies with the accounts.	The management commentary contains no material misstatements or inconsistencies with the accounts.
Any significant annual accounts disclosures to bring to your attention.	There are no significant annual accounts disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or annual accounts disclosure.	There was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.



4. Financial sustainability

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



The IJB continues to face significant financial pressures, both immediately and over the medium to longer term. Recurring financial balance cannot be achieved without the delivery of sustainable transformational change. The ability to deliver significant change on this scale within available resources will be a key challenge for the Board.

The Board has considered high level projections for the next five year period, which include the recently approved savings and recovery plan. The projections forecast a savings gap of £29 million in 2020/21, increasing to £76.4 million in 2023/24. There is now an urgent need to work with partners to develop a strategic approach to financial planning in both the immediate and medium to longer term.



Significant audit risk

37. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

The IJB has been able to demonstrate arrangements for short term financial planning and developed a high-level financial outlook which sets out the scale of the challenge. However, the IJB has not yet developed a medium or long-term financial plan or strategy. The IJB recognises that it faces significant challenge over the medium term due to increasing demand for services and a climate of constrained financial resources.

The indicative financial settlement for 2019/20 would require the IJB to identify a saving of £29.1 million across all delegated services. High level financial projections predict a gap of £116 million by 2022-23. There is an urgent need to work with partners to develop a strategic approach to financial planning. Without a medium-term financial plan in place, the IJB cannot demonstrate how it will deliver the required level of savings and key priorities within the financial resources available.

Excerpt from the 2018/19 External Audit Plan

38. We have reviewed the financial monitoring reports presented to the IJB alongside assurance and supporting documentation provided by the City of Edinburgh Council and NHS Lothian. While the IJB has prepared a high-level financial outlook which sets out the scale of the challenge, the Board has not yet developed a medium or long-term financial plan or strategy. The IJB has committed to present this to the Board by December 2019, following the expected approval of the Strategic Plan 2019-22 in September 2019.
39. The Board needs leadership and financial support from partner bodies to be able to change the way services are delivered and achieve the savings required. Financial sustainability will therefore continue to be a significant risk in our 2019/20 audit plan

Refer to Appendix 2

Strategic Planning

40. A draft of the IJB Strategic Plan 2019-2022 was presented to the Board in December 2018 and it was agreed that a completed draft would be taken back to the Board in February 2019. However, given the emerging budgetary pressures and the status of the draft at that time, a formal extension to the existing Strategic Plan 2016-2019 was approved until the new Strategic Plan is published.
41. A revised draft was presented to the Board in March 2019 and has been released for a 3-month public consultation period. The final Strategic Plan 2019-2022 will be presented to the Board in September 2019 and, subject to the IJB's approval, will be formally published.
42. The draft Strategic Plan 2019-2022 presents a high-level strategic vision, intent and direction of travel which recognises the strategic context and necessity to change the way health and social care is delivered in Edinburgh. It seeks to drive

improvement and sets out an aspiration to redesign services through a comprehensive Change Programme.

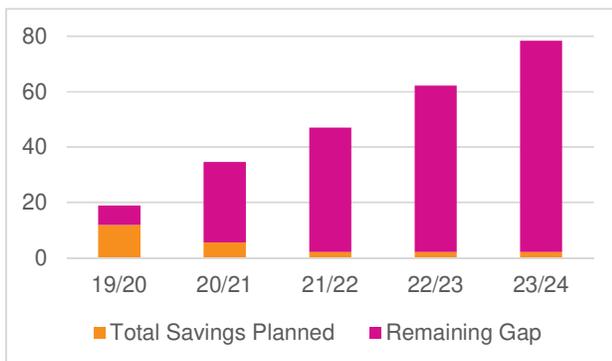
Financial Strategy

43. The draft Strategic Plan identifies that in an environment of increasing demographic pressures and growing financial challenge, the ability to redesign services in ways that makes the best use of scarce resource is critical. Given the financial constraints that City of Edinburgh Council and NHS Lothian face, both now and in the medium term, the IJB acknowledge that there will be recurring financial challenges to face.
44. The IJB's agreed approach is to focus in the immediate term on 'grip and control' measures. In the medium to longer term, the IJB aim to deliver efficiencies to support the achievement of financial balance through redesign and outputs from transformation through the change programme.



45. A medium-term financial plan is essential to support the delivery of the Strategic Plan 2019-2022. The Board approved a high-level savings and recovery plan in March 2019. As Exhibit 3 highlights, the projections outline a significant financial challenge for the Board, with a forecasted savings gap of £29 million in 2020/21 increasing to £76.4 million in 2023/24. The IJB is working with NHS Lothian and the City of Edinburgh Council to further refine the financial framework and savings plans.

Exhibit 3: Future Financial Gap (£m)



Source: IJB Development Session – May 2019

Workforce Planning

46. We highlighted within our annual report for 2016/17 that the integration scheme requires the development of a workforce plan to demonstrate that a strategic approach is in place to manage the risks that the IJB faces in relation to workforce supply and demand challenges.
47. The IJB issued Direction 19 to the City of Edinburgh Council and NHS Lothian, which required the partnership to produce and implement a workforce development strategy that supports the delivery of the strategic plan, taking account of the National Health and Social Care workplan.
48. In December 2018, an inaugural Baseline Workforce Plan was considered by the Board. This collated data and intelligence on the current workforce profile, derived from detailed interrogation of health and council payroll systems.
49. The Baseline Workforce Plan acknowledges the need for effective workforce planning to ensure that the future workforce is fit for purpose in delivering services across Edinburgh and provides focus on the nature and scale of the challenge ahead.
50. The baseline data highlights a proportionally ageing workforce, particularly in social care. Overall, 45.12% of the workforce are over the age of 50 and only 8.76% of the workforce under the age of 30.

National demographic projections indicate a reduced capacity within the working age groups which could pose significant capacity and supply problems for the IJB in the future.

51. The baseline analysis acts as a strong foundation from which to develop a strategic approach to workforce planning and the IJB has committed to developing workforce strategy in 2019. Whilst action is being taken, the development of the Strategic Plan 2019-2022 has delayed progress and further work is still required to develop an integrated workforce plan in line with the integration scheme.

Refer to Appendix 2

Impact of EU withdrawal

52. Audit Scotland has highlighted EU withdrawal as a significant risk facing public bodies across Scotland. Three streams of potential impact were identified;
- Workforce;
 - Funding; and
 - Regulation.
53. The Partnership has established a Brexit Impact Assessment Group to plan, assess risk and propose mitigating options for areas expected to be most affected. The Group reports into similar strategic groups within both NHS Lothian and City of Edinburgh Council to ensure issues are managed in a timely, effective and collaborate manner.
54. The Partnership has identified six key risks (Exhibit 4) and is currently working with services teams to discuss and capture concerns and mitigating controls.

Exhibit 4: EU Withdrawal key risks

Workforce	3.5% of workforce are EU nationals
Pharmaceuticals	Availability of essential medicines
Procurement	EU sourced supplies
'British Returners'	Influx of British citizens returning to Scotland
Finance	Budget considerations for supply price increases and/or inflation
Protests	Safeguarding essential services

Source: Report to Council Leadership Team – Brexit Strategic Group



5. Financial management

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



The IJB was able to breakeven in 2018/19 but relied on non-recurrent funding from partners to address continuing areas of overspend.

The Board approved a savings and recovery plan in March 2019 and governance arrangements to identify and monitor these have improved.

As reported to the Board in June 2019, the 2019/20 financial plan remains unbalanced by £3.5 million despite a challenging efficiencies programme, the release of unallocated reserves and the use of anticipated slippage from investment monies. The IJB is continuing to work with partner bodies to address this.



Significant audit risk

55. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial management: Projected in year deficit

Delegated services reported an overspend of £7.7 million for the first 9 months of 2018/19, which was projected to rise to £10 million by the end of the financial year. At the planning stage, on-going actions were being progressed to reduce the predicted in-year deficit to achieve a year-end balanced position.

There is a risk that the IJB will not achieve the planned balanced outturn position which could have a detrimental impact on short and medium term plans for the delivery of directed services. There is also potential for underperformance to have a wider impact on longer term financial sustainability.

Excerpt from the 2018/19 External Audit Plan

56. As set out below, the IJB was able to report an in-year surplus within the annual accounts for 2018/19 as a result of additional contributions from partners totalling £10.5 million. We considered the approach the IJB has taken to financial reporting in 2018/19 and we were satisfied that the partnership approach taken to financial management across the IJB, the City of Edinburgh Council and NHS Lothian meant that overspends incurred were met by the relevant individual partner.
57. As reported to the Board in June 2019, the 2019/20 financial plan remains unbalanced by £7.1 million despite a challenging efficiencies programme and the release of unallocated funds. The IJB is continuing to work with NHS Lothian and the City of Edinburgh Council to identify further actions required to achieve a balanced budget. The projected in year deficit will therefore continue to be a significant risk in our 2019/20 audit plan

Financial performance in 2018/19

58. The IJB spent £726 million delivering health and social care services to the people of Edinburgh in 2018/19 (2017/18: £705 million). The Board achieved a surplus in 2018/19 of £1.3 million (2017/18: £4.7 million). As a result, the IJB now has reserves totalling £9.7 million.
59. However, as Exhibit 5 highlights, the surplus was achieved as a result of addition contributions from the Board's partners to meet significant continuing overspends.
60. As a result, one off contributions were agreed for 2018/19 from City of Edinburgh Council totalling £7.5 million and from NHS Lothian providing an additional £3 million.

Exhibit 5: Financial performance in 2018/19

Financial Performance	Budget £000	Actual £000	Variance £000
Health services	514,939	517,992	(2,984)
Council services	200,755	208,237	(7,482)
Gross Position	715,694	726,159	(10,466)
Non recurring health contributions	-	(2,984)	2,984
Non recurring council contributions	-	(7,482)	7,482
Reported Outturn	715,694	715,694	-

Source: Finance Update presented to the Board - May 2019



Delivering financial balance

61. The 2019/20 budget was set by the Board in March 2019. In common with other IJBs, the financial planning cycles of partner bodies have not historically aligned. In practice, this meant that the budget had to be set based on indicative proposals. An updated budget was presented to the Board in May 2019 following the receipt of formal offers of delegated budgets from both partner bodies.
62. Delegated budgets total £666 million for 2019/20, assuming the agreed release of £2.5 million from the Council's "priorities fund". Set against this funding, the projected cost of delegated services is £687 million, resulting in a budgeted deficit of £21 million.
63. The Board considered and approved a savings and recovery programme in March 2019. Despite a challenge efficiency programme identifying £11.9 million of savings for 2019/20, the financial plan for 2019/20 remains unbalanced.
64. The IJB has agreed to release the unallocated balance on reserves (£2.4 million) on a non-recurring basis to bridge the in year financial position. However, as reported to the Board in June 2019, even with these measures the financial plan remains unbalanced by £7.1 million (Exhibit 6).

Exhibit 6: Projected net position for 2019/20

	Total £000
Delegated resources	(666,004)
Anticipated cost of delegated services	687,455
Projected savings requirement	21,451
Savings programme identified	(11,941)
Contribution from reserves	(2,360)
Outstanding balance	7,150

Source: Finance Update presented to Board - June 2019

65. The reconstituted Savings Governance Board met in June 2019, chaired by the Chief Officer, to provide additional rigour and visibility of savings throughout the partnership. An updated position on the unbalanced financial plan is expected to be reported to the Board in September 2019.

Systems of internal control

66. The IJB does not hold any assets, directly incur expenditure or legally employ staff. All financial transactions of the IJB are processed through the financial systems of the council and health board. All transactions are subject to the controls and scrutiny of the respective partners, including the work performed by internal audit.
67. We sought and obtained assurances from the external auditor of City of Edinburgh Council and NHS Lothian regarding the systems of internal control used to produce the transactions and balances recorded in the IJB's annual accounts.
68. We reviewed the approved standing financial instructions and standing orders and consider them adequate for the IJB's purposes.
69. The IJB has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses in the accounting and internal control system during our audit, although we are aware of weaknesses identified by internal audit.

Key supplier dependency

70. One of the sector risks identified by Audit Scotland for 2018/19 relates to public sector organisations' reliance on key suppliers. Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where suppliers are experiencing difficult trading conditions.
71. The IJB does not directly incur any expenditure with suppliers. This risk is therefore managed within NHS Lothian and City of Edinburgh Council.

Prevention and detection of fraud and irregularity

72. The IJB does not directly employ staff and so places reliance on the arrangements in place within the City of Edinburgh Council and NHS Lothian for the prevention and detection of fraud and irregularities. Arrangements are in place to ensure that suspected or alleged frauds or irregularities are investigated by the partner bodies. Overall, we found the arrangements to be sufficient and appropriate.



6. Governance and transparency

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



The Board initiated an external review of their governance arrangements in 2018/19. This concluded that further action was required to strengthen the Board's governance and identified a series of 18 recommendations.

Key priorities are a review of existing committee structures, which has been completed, and the development of a Governance Handbook, which is still in progress.

The Care Inspectorate and Healthcare Improvement Scotland undertook a progress review following their joint inspection of older people's services (May 2017). Their report was critical of the partnership's progress and pace of improvement, assessing that good or reasonable progress had only been made for three out of 17 recommendations



Significant audit risk

73. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Governance and transparency: Recovery plan

During 2017/18 the interim management team for the Edinburgh Health and Social Care Partnership (the group overseeing operational delivery of the IJB's directions to its partners) considered that there was a clear requirement to bring greater clarity and focus to the activities of the partnership, with an emphasis on performance, quality and finance. At its development session on 13 October 2017 the IJB considered a 'Statement of Intent' setting out:

'a high-level recovery plan to address the immediate, short and medium-term challenges faced by the Partnership, the EIJB and the parent bodies. It is constructed around the three key pillars of quality, performance and finance.'

The recovery plan outlined the following seven high-level themes as well as related commitments:

- Doing the basics well
- Developing a performance framework
- Establishing a financial framework
- Developing strategies, with identifiable, management actions
- Ensuring optimum quality
- Clarifying and simplifying governance arrangements
- Improving relationships between the IJB and its partner

As reported in our 2017/18 Annual Audit Report, key steps for delivery have been outlined but progress against the Statement of Intent has not been formally considered by the Board. As a result, we considered it too early to conclude on progress against the recovery plan and will continue to recognise this as a significant risk in 2018/19.

The IJB has recognised that without a clear roadmap to work with, it cannot bring clarity to the partnership's activities, nor can the partnership support the IJB in effectively discharging its duties. This in turn would lead to suboptimal performance and quality, and financial imbalance.

Excerpt from the 2018/19 External Audit Plan

74. Progress against the recovery plan had not been separately and formally reported since December 2017. The Improvement Plan identified 60 actions mapped against the key priorities of the Statement of Intent. Key actions were integrated into the Plan for Immediate Pressures and Longer-Term Financial Sustainability (May 2018) and subsequently integrated into the Transformation Programme. Initially there was limited accountability or reporting on progress and a lack of clear focus. However In May 2019 a new Improvement Plan was approved by the Board which was developed within the framework of the Three Conversations approach and reflected the revision of the Edinburgh Health and Social Care Partnership draft strategic plan 2019/2022. The implementation of this improvement plan should now be taken forward and progress reported on a regular basis.
75. We note below that an external assessment of the IJB's governance arrangements was undertaken in the year, identifying a series of 18 recommendations. We therefore



continue to regard the recovery plan and the need to bring clarity to the organisation's governance arrangements as a significant risk and will monitor progress in 2019/20.

Refer to Appendix 2

Governance arrangements

76. The IJB was formally constituted from April 2016 and is continuing to refine its governance arrangements. One of the objectives of the IJB's recovery plan is to simplify governance arrangements and clarify reporting processes.
77. To support this, the IJB initiated a review of the governance systems and processes in recognition of its growing maturity as a distinct entity. Given the extent and scope of this review, the IJB commissioned the Good Governance Institute to undertake this review, providing external and independent expertise.
78. The Good Governance Institute presented their findings to the Board in December 2018. The overall conclusion is that action is required to strengthen the Board governance. The report highlights the need for clarity on lines of accountability and reporting to support effectiveness and proposes changes to the existing committee structure.
79. The report sets out a series of 18 recommendations and highlights that the development and strengthening of the IJB's governance will be a continual process and requires the commitment of IJB members over time.
80. The report recommends the development of a Governance Handbook as a key priority for the IJB in order that committee structures, risk appetite, board etiquette and operating principles be set as a foundation as part of this review.
81. In June 2019, the Board formally approved the terms of reference for five committees of the IJB, allowing the committee cycle to commence from July 2019. The committee are as follows;
- Strategic Planning
 - Performance and Delivery
 - Audit and Assurance
 - Clinical and Care Governance
 - Futures
82. The Board approved an outline of the proposed content and focus of the Handbook in June 2019.

This will be developed with Board members and further support from the Good Governance Institute.

Openness & Transparency

83. There is an increasing focus on how public money is used and the outcomes that it helps to achieve. Due to this it is important that public bodies operate in a transparent manner and consider potential actions which can continuously improve transparency.
84. We found that the IJB has clear arrangements in place to ensure that members of the public can attend the board meetings as observers and that agendas are available five working days in advance of the meetings.
85. We noted that the IJB does not make audit committee papers available on their website, although minutes are available through the board papers. Through the current review of governance arrangements, the IJB should therefore consider whether the balance of openness is appropriate.

Joint Inspection of Older People's Services: Progress Report

86. The Care Inspectorate and Healthcare Improvement Scotland carried out a joint inspection of older people's services in health and social care across Edinburgh, publishing a report in May 2017. The IJB developed an improvement plan from the findings and 17 recommendations made in the report.
87. In June 2018, the Care Inspectorate and Healthcare Improvement Scotland undertook a progress review. Their report was published in December 2018 and was critical of the partnership's progress and the pace of improvement. Of the 17 recommendations raised in May 2017, progress was assessed as follows;
- Good progress – one recommendation;
 - Reasonable progress – two recommendations;
 - Limited progress – twelve recommendations;
 - Poor progress – two recommendations.



88. The IJB has developed a revised Improvement Plan which addresses each recommendation by including a statement of aims and targets based on year 1, year 3 and year 5. The Plan establishes how these will be achieved and how they will be monitored. The Improvement Plan was approved by the Board in May 2019 and is currently being considered and ratified at the NHS Lothian Healthcare Governance group and the CEC Corporate Policy and Strategy Committee.

89. We will continue to monitor progress against the Improvement Plan in our 2019/20 audit.

Health and Social Care Integration – Update on Progress

90. Audit Scotland published a report “*Health and Social Care Integration – Update on Progress*” in November 2018. The aim of the audit was to “explore the impact public bodies were having on integration of health and social care services”.
91. The report identified that generally integration authorities are delivering services in a more collaborative way, however they continue to operate in a challenging environment and financial planning could be further streamlined. Further work is required with regards to strategic planning, collaborative leadership, governance arrangements and data sharing.
92. Audit Scotland identified six key recommendations to support integration authorities in fully integrating health and social care (Exhibit 7). The IJB has identified a number of current activities they are undertaking that relate to these recommendations. They acknowledge however that further work is required and an update will be presented to the Board in due course. We will continue to monitor the IJB’s progress in addressing these recommendations in our 2019/20 audit.

Exhibit 7: Health and Social Care Integration recommendations

1. Commitment to collaborative leadership and building relationships
2. Effective strategic planning for improvement
3. Integrated finances and financial planning
4. Agreed governance and accountability arrangements
5. Ability and willingness to share information
6. Meaningful and sustained engagement

Source: Audit Scotland: Health and social care integration: update on progress – November 2018

93. In February 2019 a Scottish Government Ministerial Strategic Group published a report on health and social care. The report noted evidence of some good progress in local systems but also that the pace and effectiveness of integration needed to increase. The report made 25 recommendations and provided a self assessment template which the IJB completed and was submitted to the Board in May 2019.

Internal Audit

94. The City of Edinburgh Council internal audit team provides the IJB’s internal audit service and Chief Auditor of City of Edinburgh Council has been appointed as the Chief Internal Auditor for the IJB.
95. To avoid duplication of effort and to ensure an efficient audit process we have taken cognizance of the work of internal audit throughout our audit. While we have not placed formal reliance on the work of internal audit in 2018/19, we have taken account of internal audit’s work in respect of our wider scope responsibilities. We are grateful to the internal audit team for their assistance during the course of our work.
96. In her Annual Opinion, the Chief Internal Auditor notes that significant enhancements are required to the IJB control environment and governance and risk management frameworks. As a result, internal audit provided a ‘red rated opinion’ (significant enhancements required) and deemed there to be significant weaknesses that put the achievement of organizational objectives at risk.
97. Internal audit’s opinion is based on the outcomes of four audits included in the IJB’s 2018/19 Internal Audit Plan; the outcomes of relevant Partnership reports referred to the IJB by the relevant Audit Committees; and the status of open internal audit findings.

Standards of conduct

98. In our opinion, the IJB’s arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate.
99. The IJB implemented a code of conduct based on the template code provided by Scottish Government and the codes in place at the partner organisations. In line with the integration scheme, the IJB utilizes the financial governance arrangements in place within the partner bodies including fraud management arrangements



7. Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to the IJB's own reporting of its performance.



The IJB is continuing to develop and embed a robust performance management framework. The establishment of a Performance and Delivery Committee in June 2019 is a key step in achieving this and we will continue to monitor progress in 2019/20.

The IJB continues to perform poorly against a number of key indicators including delayed discharges. The IJB has recognized these areas of underperformance and is intending to address these through the implementation of the Strategic Plan 2019-22.



Significant audit risk

100. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Value for money: Performance

Under the integration scheme, the IJB is responsible for implementing a comprehensive performance management system that allows for transparent reporting and appraised achievement against the strategic plan. One of the key strands outlined in the IJB's Statement of Intent is the development of a performance management framework.

As reported in our 2017/18 Annual Audit Report, the IJB has developed metrics that will be reported to every meeting of the Board. However, further work is still required to fully develop the performance management framework. In May 2018, the Board agreed to suspend the work of the Performance and Quality Sub-Group with the understanding that an external review of governance arrangements would be completed by 2018. As reported to the IJB in December 2018, the review concluded that responsibility for performance management was unclear and that governance arrangements required further development.

Without a clear, effective performance management framework in place there is a risk that the IJB cannot demonstrate continual improvement of services delivered and the achievement of value for money through appropriate use of resources.

Excerpt from the 2018/19 External Audit Plan

101. In June 2019, the Board approved a new committee structure including the establishment of the Performance and Delivery Committee, ensuring that responsibility for performance management is clearly allocated. The committee's core duties are still to be developed and will form the basis of the IJB's performance management framework, along with the developing Governance Handbook. We continue to regard the performance management framework as a significant risk and will monitor the key actions taken in 2019/20.

Performance Framework

102. Under the integration scheme, the IJB is responsible for implementing a comprehensive performance management system that allows for a transparent reporting and appraises achievement against the strategic plan. One of the key strands outlined in the IJB's Statement of Intent is the development of a performance management framework.
103. In 2017/18 we reported that work had focused on the development of metrics that will be reported to every meeting of the IJB; however further work was still required to fully develop the performance management framework.
104. In May 2018, the Board agreed to suspend the work of the Performance and Quality Sub-Group and to temporarily refer its performance monitoring role to the Strategic Planning Group. An external review of governance arrangements was undertaken in 2018/19 and the IJB has reviewed its committee structures as a result.
105. In June 2019, the Board approved the terms of reference for a Performance and Delivery committee as part of the new governance structure. The purpose and function of this committee is to;
- Provide assurance that the IJB is meeting commitments;
 - Oversee a performance and progress reporting framework and supporting processes
 - Receive progress reports from accountable officers on finance, duty of care, quality, variations and other relevant matters.
106. Core duties will be developed by the committee and approved by the IJB at a future meeting.



107. The establishment of a Performance and Delivery Committee with a clear purpose and remit is a key step in developing a robust performance management framework. We will continue to monitor progress in 2019/20.

Refer to Appendix 2

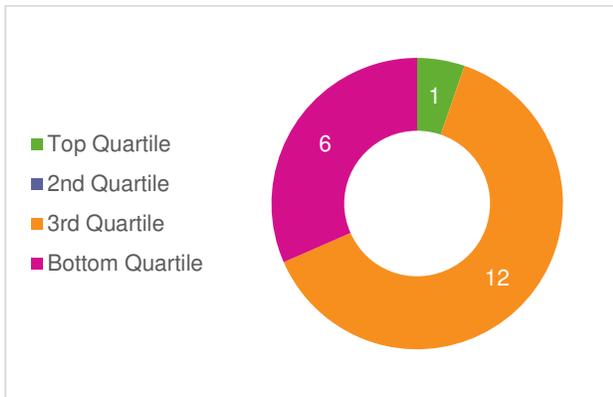
Performance during 2018/19

108. In line with the requirements of the Public Bodies (Joint Working) Act 2004, the IJB prepares an annual public performance report that considers progress against both the nine National Health and Wellbeing Outcomes and the key priorities identified within their strategic plan.

109. The performance report compares the IJB’s performance against 19 core national indicators to the Scottish average. The report also highlights how the IJB ranks compared to other authorities. As Exhibit 8 demonstrates, performance continues to be mixed.

- Percentage of adults supported at home who agreed that they had a say in how their help, care or support was provided.
111. The IJB has acknowledged areas of poor performance and is intending to address them through the implementation of the Strategic Plan 2019-2022. We will continue to monitor progress in 2019/20.

Exhibit 8: Edinburgh IJB performance against the core national indicators



Source: draft Edinburgh IJB Annual Performance Report 2018/19

- For six of the 19 indicators (32%) performance improved compared to prior year. The report highlights that the IJB performs strongly against one indicator and is ranked 2nd for : Emergency admission rates.
110. A number of areas show poor performance and the IJB is ranked between 29th and 31st for:
- Proportion of last 6 months of life spent at home or in a community setting;
 - Number of days people spend in hospital when they are ready to be discharged; and



8. *Appendices*





Appendix 1: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual accounts

The Board is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Chief Financial Officer has been designated as that officer within the IJB.

The Chief Financial Officer is responsible for the preparation of the annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing the annual accounts, the Chief Financial Officer is responsible for:

- selecting suitable accounting policies and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- complying with legislation; and
- complying with the Code.

The Chief Financial Officer is also responsible for:

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual accounts and give an opinion on whether:

- they give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of the affairs of the body as at 31 March 2019 and of its income and expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code;
- they 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;
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014;
- the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government Scotland Act 2003; and
- the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

We are also required to report, if in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with accounting records; or
- we have not received all the information and explanations we require for our audit.



Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

Best value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the IJB's best value arrangements has been integrated into our audit approach, including our work on the wider scope audit dimensions.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff, IJB and senior management that may reasonably be thought to bear on our objectivity and independence.



Appendix 2: Action plan

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit.

Action plan grading structure

To assist IJB in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated.

The rating structure is summarised as follows:

Grade	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.



Follow up of prior year recommendations

We deem all five open recommendations raised within our 2016/17 and 2017/18 annual audit reports to be ongoing. Details are given below.

1. Medium term financial plan

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>The IJB is forecasting a funding shortfall at current services levels of almost £117 million by 2022-23</p> <p>Recommendation</p> <p>The IJB should develop a Medium Term Financial Plan to support the delivery of the vision and priorities within the updated Strategic Plan for 2019-22.</p>	<p>Accepted.</p> <p>Responsible officer: Chief Finance Officer</p> <p>Implementation date: March 2019</p>
Current status	Audit Update	Management response
Ongoing	<p>The IJB has committed to present the Medium Term Financial Plan to the Board in December 2019 following the approval of the Strategic Plan 2019-2022.</p>	<p>This is on-track for delivery in December 2019. In the interim, the board has been briefed on the emerging medium term financial outlook at development sessions in May and September 2019.</p>

2. Assurance Framework

Initial rating	Issue & recommendation	Management comments
Grade 2	<p>Observation</p> <p>During our audit, we noted a number of areas where there was a lack of clarity of requirements for reporting and monitoring performance and improvement plans.</p> <p>We noted that the Board has committed to reviewing the governance arrangements during 2018.</p> <p>Recommendation</p> <p>As part of a review of governance arrangements, the Board should consider the introduction of an Assurance Framework to ensure that Board members share an understanding about assurance needs and sources.</p>	<p>Accepted.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: March 2019</p>
Current status	Audit Update	Management response
Ongoing	<p>The IJB is currently developing a Governance Handbook to clarify governance arrangements, assurance needs and key sources of assurance. We recommend this is developed as a priority in 2019/20.</p>	<p>Not applicable</p>



3. Recovery Plan

Initial rating	Issue & recommendation	Management comments
Grade 3	<p>Observation</p> <p>We noted that reporting on the Improvement Plan is predominantly narrative in nature and it may therefore be difficult for Board members to scrutinise the scale and pace of improvement.</p> <p>Recommendation</p> <p>The Board should ensure that action plans to deliver improvement actions are;</p> <ul style="list-style-type: none"> - Reported on a regular basis, using succinct format which include a clear assessment of progress against actions - Framed in SMART terms 	<p>Accepted.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: January 2019</p>
Current status	Audit Update	Management response
Ongoing	<p>Key actions from the Improvement Plan were integrated into the Plan for Immediate Pressures and Longer-Term Financial Sustainability (May 2018) and subsequently into the Transformation Programme (February 2019). Initially there was limited accountability or reporting on progress and a lack of clear focus. However In May 2019 a new Improvement plan was approved by the Board which was developed within the framework of the Three Conversations approach and reflected the revision of the Edinburgh Health and Social Care Partnership draft strategic plan 2019/2022.</p> <p>In June 2019, the Board established a Performance and Delivery Committee. The purpose of the committee is to monitor performance, ensure delivery of commitments and receive progress reports from accountable officers on operational matters.</p> <p>Further work is required to embed the role of the committee and ensure regular progress reporting.</p>	<p>Agree . Regular reports on progress against the Improvement Plan will be submitted to the appropriate IJB committee</p>



4. Performance

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>The IJB's performance against a number of key indicators continues to fall below target, despite intervention actions to date. A vision for the future has been set out in the Statement of Intent but strategic support is needed from the Board's partners to deliver transformational change.</p> <p>Recommendation</p> <p>The Board should work with partners to ensure that sufficient financial and leadership capacity is available to deliver sustained improvement</p>	<p>Accepted.</p> <p>Responsible officer: Chief Officer</p> <p>Implementation date: Ongoing</p>
Current status	Audit Update	Management response
Ongoing	<p>A number of areas showed poor performance in 2018/19. The IJB is continuing to work with partners to support the delivery of sustainable improvement.</p> <p>The recent establishment of a Performance and Delivery Committee should provide clearer oversight, more focused scrutiny and regular progress updates. We will continue to monitor progress.</p>	Not applicable



5. Workforce planning

Initial rating	Issue & recommendation	Management comments
Grade 4	<p>Observation</p> <p>The integration scheme requires the IJB to develop an integrated workforce plan for the city.</p> <p>The IJB has not yet developed an integral workforce plan, and as a result is not meeting the requirement of the integration scheme. Without a documented plan in place, the IJB cannot demonstrate that a strategic overview is being taken over the risks the city faces in relation to workforce supply and demand challenges, communication, staff engagement and training needs to support the implementation of the strategic plan.</p> <p>Recommendation</p> <p>The IJB should develop an integrated workforce plan for the city.</p>	<p>This is captured in the 2016-17 directions issued to CEC and NHS Lothian. Direction 19 requires:</p> <p>”the City of Edinburgh Council and NHS Lothian are directed to work with the Edinburgh Health and Social Care Partnership to:</p> <ol style="list-style-type: none"> produce and implement a workforce development strategy that supports the delivery of the strategic plan; taking account of the National Health and Social Care Workforce Plan; ensure that any business cases developed in relation to the strategic plan clearly set out any ICT implications.” <p>Responsible officer: Chief Nurse</p> <p>Implementation date: Initial workforce strategy will be presented to IJB in December 2018.</p>

Current status	Audit Update	Management response
Ongoing	<p>A baseline workforce plan was presented to the Board in December 2018, providing detail on the current workforce profile. The baseline acts as a strong foundation from which to develop a strategic approach to workforce planning. The IJB has committed to developing a workforce strategy in 2019.</p> <p>Given the challenges identified within the baseline workforce plan, the IJB should develop a workforce strategy as a priority.</p>	<p>Agreed. Development of a workforce strategy is a key element of the IJB’s change programme.</p>



Scott-Moncrieff
Exchange Place 3
Semple Street
Edinburgh
EH3 8BL

Date : September 2019

Dear Sirs

Edinburgh Integration Joint Board

This representation letter is provided in connection with your audit of the annual accounts of Edinburgh Integration Joint Board (the IJB) for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with 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 2018/19 (the 2018/19 Code).

I can confirm to you, in respect of the financial statements of the IJB for the year ended 31 March 2019, the following:-

Annual accounts and accounting records

1. I have fulfilled my responsibilities for preparing financial statements which give a true and fair view in accordance with the 2018/19 Code and for making accurate representations to you.
2. I have provided you with:
 - access to all information of which I am 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 me for the purpose of the audit; and
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

Judith Proctor
Chief Officer
Edinburgh Integration Joint Board
Waverley Court
4 East Market Street
EDINBURGH
EH8 8BG
Tel 0131 553 8201

Working together for a caring,
healthier, safer Edinburgh

3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. Except as disclosed in the financial statements, the results for the year were not materially affected by:
 - any change in accounting policies;
 - transactions of a type not usually undertaken by the IJB;
 - circumstances of an exceptional or non-recurrent nature; or
 - charges or credits relating to prior periods.
5. I have reviewed going concern considerations and am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this opinion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements were approved.
6. I confirm the financial statements are free of material misstatements, including omissions.

Fraud

7. I acknowledge as Chief Finance Officer my responsibilities for the design and implementation of internal control in order to prevent and detect fraud and to prevent and detect error.
8. In my opinion, the risks that the financial statements may be materially misstated as a result of fraud are low. Measures have been put in place by management to reduce the risk of fraud.
9. I have disclosed to you all information in relation to fraud or suspected fraud that I am aware of and that affects the IJB and involves:
 - management
 - employees who have significant roles in internal control
 - others where the fraud could have a material effect on the financial statements.
10. I am not aware of any allegations of fraud or suspected fraud with a potential effect on the financial statements which have been communicated to me by employees, former employees, partner bodies, regulators or other third parties.

Compliance with laws and regulation, and contractual agreements

11. I am not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
12. 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.

Accounting estimates and judgements

13. In my opinion, the significant assumptions that have been used in the financial statements are reasonable.
14. In my opinion the significant assumptions used by the IJB in making accounting estimates are reasonable.
15. I do not consider that the remuneration of the Chief Finance Officer is required to be disclosed within the remuneration report under the requirements of the

2017/18 Code and The Local Authority Accounts (Scotland) Regulations 2014 (SSI 2014/200) Schedule (definitions section).

Related parties

16. I have disclosed to you the identity of the IJB's related parties and all related party relationships and transactions of which I am aware.
17. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the 2018/19 Code.
18. In particular, I am not aware of any elected member, connected person, or officer with a disclosable interest in a transaction with the IJB at any time during the year other than as indicated in the financial statements.

Assets and liabilities

19. I have disclosed to you all known actual or possible litigation or claims whose effects should be considered when preparing the financial statements and that they have been accounted for and disclosed in accordance with International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the 2018/19 Code.
20. I am not aware of any IJB plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
21. The IJB has no plans to abandon activities.
22. I have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that I have given to third parties.

Subsequent events

23. All events subsequent to the date of the financial statements and for which the 2018/19 Code requires adjustment or disclosure have been adjusted or disclosed. Should any material events occur which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, I will advise you accordingly.

I confirm that the above representations are made on the basis of enquiries of members and officers with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the above representations to you.

Yours faithfully

Moira Pringle

Chief Finance Officer

On September 2019

Report

Internal Audit Annual Opinion 2018/19

Edinburgh Integration Joint Board

3 September 2019

Executive Summary

1. This purpose of this paper is report the Edinburgh Integration Joint Board (EIJB) Internal Audit annual opinion for the year ended 31 March 2019. This was presented to the EIJB Audit and Assurance Committee on 27th August 2019 for review and noting.
2. The 2018/19 annual opinion reflects that Internal Audit considers that significant enhancements are required to the EIJB control environment and governance and risk management frameworks and is therefore reporting a 'red' rated opinion with our assessment towards the middle of this category. This assessment remains unchanged from the 2017/18 Internal Audit annual opinion reported to the previous EIJB Audit and Risk Committee in July 2018.
3. Our opinion is based on the outcomes of four audits included in the EIJB 2018/19 Internal Audit annual plan and the status of open and overdue EIJB IA findings as at 31 March 2019.
4. Our opinion is also informed by the outcomes of relevant Partnership IA reports referred to the EIJB by the City of Edinburgh Council (the Council) Governance, Risk, and Best Value Committee and the NHS Lothian (NHSL) Audit and Risk Committee, and the status of any open and overdue Partnership IA findings.
5. This report is prepared as per the requirements detailed in the Public Sector Internal Audit Standards (PSIAS).

Background

6. It is the responsibility of the EIJB Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of the EIJB's control environment, and governance and risk management frameworks in line with the requirements of Public Sector Internal Audit Standards.
7. The annual opinion is provided to the EIJB Audit and Assurance Committee and should be used to inform the EIJB Annual Governance Statement. The 2018/19 opinion was presented to the EIJB Audit and Assurance Committee on 27 August 2019 and subsequently referred to the Board for noting. Copies of the full meeting papers and supporting appendices are available upon request.
8. The Public Sector Internal Audit Standards (PSIAS) provide a coherent and consistent IA framework for public sector organisations. Adoption of the PSIAS is mandatory for IA teams within UK public sector organisations, and PSIAS require annual reporting on conformance.

9. The objective of IA is to provide a high-quality independent audit service to the EIJB in accordance with PSIAS requirements, that provides assurance over the control environment established to manage the EIJB's key risks, and their overall governance and risk management frameworks.
10. IA assurance is provided to the EIJB by its two partners, the Council and NHSL, with a total of four audits completed annually (three by the Council and one by NHSL). The role of Chief Internal Auditor for the EIJB is performed by the Council's Chief Internal Auditor.
11. NHSL use a different classification for their assurance outcomes and IA findings in comparison to the Council. Details of these classifications and their alignment are included at Appendices 1 and 2.
12. It is the responsibility of the Chief Internal Auditor to provide an independent and objective annual opinion on the adequacy and effectiveness of the EIJB's control environment and governance and risk management frameworks in line with PSIAS requirements.
13. The EIJB IA plan for 2018/19 was based on the December 2017 EIJB risk register which included Very High (1); High (3); and Medium (5) rated risks where audit assurance could be provided. The 2018/19 IA annual plan was approved by the previous EIJB Audit and Risk Committee in July 2018.
14. Where control weaknesses are identified, IA findings are raised, and management agree recommendations to address the gaps identified. However, it is the responsibility of management to address and rectify control weaknesses via timely implementation of the agreed management actions.
15. The IA definition of an overdue finding is any finding where all agreed management actions have not been implemented by the final date agreed by management and recorded in IA reports.

Main report

Internal Audit Opinion

16. IA considers that significant enhancements are required to the EIJB control environment and governance and risk management frameworks and is therefore reporting a 'red' rated opinion (see Appendix 1), with our assessment towards the middle of this category.
17. This opinion reflects the outcomes of the 2018/19 EIJB audits with a significant proportion (50%) assessed as 'significant enhancements required' (red). It is acknowledged that this position has improved in comparison to 2017/18, with a reduced number of high rated findings raised, however, we have also observed an increasing trend in the percentage of open EIJB IA findings that were overdue as at 31 March 2019.
18. In addition, we also note that the three historic EIJB findings reopened in June 2018 due to agreed management actions to address the control weaknesses identified during the relevant audits not being effectively implemented and sustained, had not been addressed as at 31 March 2019. Consequently, the EIJB continues to be exposed to the risks associated with these overdue findings.
19. Additionally, we have observed limited improvement in the control environment and governance and risk management frameworks applied by the Council and NHSL to

relevant Partnership activities that either directly impact on core IJB activities, or impact on ancillary IJB activities, and noted an increasing trend in the percentage of relevant Partnership IA findings that were overdue as at 31 March 2019.

20. This opinion is subject to the inherent limitations of IA (covering both the control environment and the assurance provided over controls) as set out in Appendix 5.
21. IA is not the only source of assurance provided to the EIJB, and there are a number of additional assurance sources (for example, external audit) that the Committee should consider when forming their own view on the design and effectiveness of the EIJB control environment and governance and risk management frameworks.

Basis of Opinion

22. Our opinion is based on the outcomes of four audits included in the 2018/19 EIJB Internal Audit annual plan; and the status of EIJB open and overdue IA findings as at 31 March 2019.
23. Our opinion is also informed by the outcomes of relevant Partnership audits completed by the Council and NHSL and the status of their open and overdue IA findings as at 31 March 2019.

Audit Outcomes

24. Completion of the four EIJB audits included in the 2018/19 EIJB IA annual plan provided assurance on the Very High (1); High (3); and Medium (5) rated risks included in the December 2018 EIJB risk register.
25. Two of the audits (Governance Structures and Infrastructure and Support – Integration Scheme) had an overall ‘significant enhancements’ (red) outcome, whilst the Financial and Budget Management and Strategic Planning audits had an overall ‘generally adequate’ (amber) outcomes. A total of 12 Internal Audit findings (3 Medium and 9 High) were raised from these reviews.
26. A total of 14 Council audits have been identified that may be of interest to the EIJB Audit and Risk Committee. Of these, four include control gaps that have a direct impact on core IJB activities; and ten include control gaps that have an impact on ancillary IJB activities. An overall report assessment of significant enhancements (red) was the outcome for 7 of the audits; with a generally adequate (amber) assessment for the remaining 7. A total of 36 Internal Audit findings (17 High; 14 Medium and 5 Low) were raised.
27. A total of 15 NHS Lothian audits have been identified that may be of interest to the previous EIJB Audit and Risk Committee. Of these seven include control gaps that have a direct impact on core IJB activities; and eight include control gaps that have an impact on ancillary IJB activities. An overall report assessment of limited assurance (yellow), which is the equivalent of a red rated audit for the Council, was the outcome for one audit with moderate (amber) for six audits and a significant assurance assessment (green) for the remaining eight audits. A total of 53 Internal Audit findings (7 High; 34 Medium and 12 Low) were raised.
28. A summary of the outcomes of the EIJB audits and audits performed by the Council and NHS Lothian that may be of interest to the EIJB are included, at Appendix 3.

Status of Internal Audit Findings

29. As at 31 March 2019, the EIJB had a total of 16 open Internal Audit findings (10 High and 6 Medium). Three of the 16 open findings (2 High and 1 Medium) are the historic findings that were reopened in June 2018. Of these 16 open findings, 14 (88%) were overdue (8 High and 6 Medium) as at 31 March 2019, including the three historic findings.
30. As at 31 March, the Health and Social Care Partnership (the Partnership) was also working towards closure of 14 open Internal Audit findings (2 High; 10 Medium and 2 Low) that were raised from relevant Council IA reviews. Of these open findings 12 (2 High; 8 Medium and 2 Low) were overdue as at 31 March 2019.
31. Progress towards closure of both EIJB and Partnership IA findings is monitored by the Partnership's Assurance Oversight Group. Open and overdue findings for the EIJB are reported to the EIJB Audit and Assurance Committee and Partnership findings are subject to ongoing review and scrutiny by the Council's Governance, Risk and Best Value Committee.
32. No information has been provided by NHSL in relation to progress with implementing findings raised as part of the relevant Partnership audits included in their Internal Audit plans.
33. Further information on the status of open and overdue Internal Audit findings for the EIJB and the Council is included at Appendix 4.

Comparison to Prior Year

34. A 'red' rated opinion was also reported in 2017/18 (with an assessment towards the middle of the category), reflecting that significant enhancements to the EIJB control environment and governance and risk management frameworks was required. This assessment remains unchanged for 2018/19.
35. The outcomes of the four EIJB audits completed in 2018/19 reflects a slightly improved position in comparison to 2017/18 as two audits had an overall 'significant enhancements' (red) outcome; and two had an overall 'generally adequate' (amber) outcome in comparison to the three reviews completed in 2017/18 that were all assessed as 'significant enhancements' (red).

Additionally, a total of 12 Internal Audit findings (3 High and 9 Medium) were raised from the four 2018/19 reviews in comparison to 9 findings raised (8 High and 1 Medium) from the three reviews completed in 2018/19.
36. The outcomes of the 14 Council audits completed in 2018/19 identified as being of interest to the EIJB with seven rated as significant enhancements (red); and seven generally adequate (amber) in comparison to the nine reports identified in 2017/18 (6 Significant Enhancements; 3 Generally Adequate) highlight that there has been limited improvement in the control environment and governance and risk management frameworks applied by the Council to activities that either directly impact on core IJB activities, or impact on ancillary IJB activities.
37. This is supported by a comparison of the IA findings raised across the Council audits with 36 (17 High; 14 Medium; and 5 Low) raised from the 14 audits completed in 2018/19 in

comparison to the 50 (19 High; 22 Medium and 9 Low) findings raised from the nine audits completed in 2017/18. It should be noted that 20 of the 50 findings raised in 2017/18 related specifically to the Care Homes Assurance review completed across the Council's care homes.

38. A higher volume of 2018/19 NHS Lothian audits (15) have been identified as being of interest to the EIJB in comparison to the two reports identified in 2017/18. Consequently, it has not been possible to perform an effective comparison.
39. We have noted an increasing trend in the percentage of open EIJB IA findings that were overdue as at 31 March 2019 (88% in 2018/19 in comparison to 82% in 2017/18), including the three (2 High and 1 Medium) historic findings that were reopened in June 2018, and an increase in the number of High rated findings that are now overdue (80% in 2018/19 in comparison to 70% in 2017/18).
40. An increasing trend in the percentage of relevant Partnership IA findings that were overdue as at 31 March 2019 (86%) is also evident in comparison to 80% as at 31 March 2018. Additionally, both 'High' rated Partnership findings were overdue as at 31 March 2019.

Internal Audit Independence

41. PSIAS require that Internal Audit must be independent and internal auditors must be objective in performing their work. To ensure conformance with these requirements, both the Council and NHSL Internal Audit teams have established processes to ensure that both team and personal independence is consistently maintained and that any potential conflicts of interest are effectively managed.
42. Neither audit team considers that we have faced any significant threats to our independence during 2018/19, nor do we consider that we have faced any inappropriate scope or resource limitations when completing our work.
43. IA independence for NHS Lothian was confirmed in the Internal Audit Annual Report and Opinion 2018/19 that was presented to the NHS Lothian Audit and Risk Committee on 17 June 2019.
44. IA independence for the Council was confirmed in the City of Edinburgh Council Internal Audit Opinion and Annual Report for the Year Ended 31 March 2019 presented at the Governance Risk and Best Value committee on 13 August 2019 ([City of Edinburgh Council Internal Audit Annual Opinion 2018/19](#)).

Conformance with Public Sector Internal Audit Standards

45. The City of Edinburgh Council IA team has not fully conformed with PSIAS requirements during 2018/19 as resourcing challenges within the IA team impacted upon completion of the internal quality assurance review included in the 2018/19 Internal Audit annual plan to ensure consistency of audit quality.
46. It should be noted that these instances of non-conformance have had no direct impact on the quality of internal audit reviews completed for the EIJB in 2018/19.
47. The NHSL Internal Audit team has fully conformed with PSIAS requirements during 2018/19. This is confirmed in the Internal Audit Annual Report and Opinion 2018/19 that was presented to the NHS Lothian Audit and Risk Committee on 17 June 2019.

Key risks

48. If Internal Audit findings are not implemented, the EIJB will remain exposed to the risks detailed in Internal Audit reports. Internal Audit findings are raised as a result of control gaps or deficiencies identified during reviews and therefore failure to implement findings will impact upon compliance and governance.

Financial implications

49. There are no financial implications for the EIJB as a consequence of this report.

Implications for Directions

50. There are no specific implications for directions arising from this report.

Equalities implications

51. There are no equalities impacts.

Sustainability implications

52. No direct sustainability implications.

Involving people

53. The IA plan on which this opinion is based, is derived from the EIJB risk register. In preparing the risk register, the Risk function consulted widely with senior management from the Integration Board, NHS Lothian and the City of Edinburgh Council. The Risk register also includes input from members of the Board and the Board's Audit Committee.

Impact on plans of other parties

54. The IA reports brought to the attention of the Committee, that support and inform this opinion, originate from three different sources:
- Audits completed for the EIJB as part of its 2018/19 IA plan. These audits were performed by either the Council or the NHSL IA teams under the supervision of the EIJB's Chief Internal Auditor.
 - Audits completed by the Council IA team for the City of Edinburgh Council and referred to the EIJB Audit & Assurance Committee by the City of Edinburgh Council's Governance, Risk & Best Value Committee.
 - Audits completed by the NHSL IA team for NHS Lothian and made available to the EIJB's Audit and Risk Committee by NHS Lothian's Audit and Risk Committee.
55. Reports in the first category require to be incorporated into the work programmes of both IA teams and may require Council IA team members to work within the NHS as well as in their own environment.

Background reading / references

[Public Sector Internal Audit Standards](#)

[City of Edinburgh Council Internal Audit Annual Opinion 2018/19](#)

Report author

Lesley Newdall

Chief Internal Auditor

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Appendices

Appendix 1	Internal Audit opinion types
Appendix 2	Classifications Applied to Internal Audit Findings
Appendix 3	Internal Audit reports that form the basis of and inform the 2018/19 Internal Audit Opinion and Open Internal Audit Findings
Appendix 4	Open and Overdue Internal Audit Findings as at 31 March 2019
Appendix 5	Limitations and responsibilities of Internal Audit and management responsibilities

Appendix 1 – Internal Audit opinion types

The PSIAS require the provision of an annual Internal Audit opinion, but do not provide any methodology or guidance detailing how the opinion should be defined.

Professional judgement is exercised in determining the appropriate opinion, and it should be noted that in giving an opinion, assurance provided can never be absolute

There are 4 possible opinion types that are applied to EIJB Internal Audit reports and also the EIJB annual Internal Audit opinion. These are:

City of Edinburgh Council	
<p>1 'Adequate'</p> <p><i>An adequate and appropriate control environment and governance and risk management framework is in place enabling the risks to achieving organisation objectives to be managed</i></p>	<p>2 'Generally adequate but with enhancements required'</p> <p><i>Areas of weakness and non-compliance in the control environment and governance and risk management framework that that may put the achievement of organisational objectives at risk</i></p>
<p>3 'Significant enhancements required'</p> <p><i>Significant areas of weakness and non-compliance in the control environment and governance and risk management framework that puts the achievement of organisational objectives at risk</i></p>	<p>4. 'Inadequate'</p> <p><i>The framework of control and governance and risk management framework is inadequate with a substantial risk of system failure resulting in the likely failure to achieve organisational objectives</i></p>

NHS Lothian Assurance Categories Applied to EIJB Internal Audit Reports	
<p>1 Significant Assurance</p> <p><i>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective. There may be an insignificant amount of residual risk or none at all.</i></p>	<p>2 Moderate Assurance</p> <p><i>The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied. There remains a moderate amount of residual risk.</i></p>
<p>3 Limited Assurance</p> <p><i>The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.</i></p>	<p>3 No Assurance</p> <p><i>The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.</i></p>

Appendix 2 - Classifications Applied to Internal Audit Findings

City of Edinburgh Council	
Rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance ; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

NHS Lothian	
Rating	Definition
Critical	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
Significant	A key control failure has been identified which could be either due to a failure in the design or operating effectiveness. There are no compensating controls in place, and management should aim to implement controls within a calendar month of the review.
Important	A control failure has been identified which could be either due to a failure in the design or operating effectiveness. Other controls in place partially mitigate the risk to the organisation, however management should look to implement controls to fully cover the risk identified
Minor	Minor non-compliance has been identified with the operating effectiveness of a control, however the design of the control is effective of a control, however the design of the control is effective

Appendix 3 - Internal Audit reports that form the basis of and inform the 2018/19 Internal Audit Opinion and Open Internal Audit Findings

	No of Audits	No of Findings Raised			Totals
		High	Medium	Low	
EIJB Audit Reviews	4	3	9	-	12
City of Edinburgh Council Audit Reviews	14	17	14	5	36
NHS Lothian Audit Reviews	15	7	34	12	53
Total 2018/19	33	27	57	17	101
Total 2017/18	14	29	26	11	66

Table 2: EIJB Internal Audit Reports	Overall Report Rating	No of Findings Raised			Totals
		High	Medium	Low	
Financial and Budget Management (NHSL)	Moderate Assurance	1	5	-	6
Governance Structures	Significant Enhancements	1	1	-	2
Infrastructure and Support – Integration Scheme	Significant Enhancements	1	-	-	1
Strategic Planning	Generally Adequate	-	3	-	3
Total 2018/19 – 4 reports		3	9	-	12
Total 2017/18 – 3 reports		8	1	-	9

Appendix 3 - Internal Audit reports that form the basis of and inform the 2018/19 Internal Audit Opinion and Open Internal Audit Findings

Table 3: City of Edinburgh Council Internal Audit Reports

				Findings Raised			
		*Impact	Overall Report Outcome	High	Medium	Low	Totals
1.	Payments and Charges	Indirect	Generally Adequate	-	5	-	5
2.	Organisational Change	Direct	Generally Adequate	-	1	-	1
3.	Emergency Prioritisation and Complaints – Telecare	Indirect	Generally Adequate	-	1	1	2
4.	Financial Systems Access Controls	Direct	Significant Enhancements	1	-	-	1
5.	Portfolio Governance Framework	Indirect	Generally Adequate	1	-	1	2
6.	Quality, Governance and Regulation	Indirect	Generally Adequate	1	1	1	3
7.	Public Sector Cyber Action Plan for Cyber Resilience Review – referred in May 2019	Indirect	Significant Enhancements	1	2	-	3
8.	Compliance with IR35 and Right to Work Requirements – referred in May 2019	Indirect	Generally Adequate	1	1	1	3
9.	Validation of Internal Audit Implemented and Sustained Management Actions – referred in May 2019	Indirect	Significant Enhancements	2	1	-	3
10.	Contract Management and Construction Industry Scheme Payment Deductions	Direct	Significant Enhancements	2	-	-	2

11.	GDPR (Gap Analysis) Follow-up	Direct	Generally Adequate	1	1	1	3
12.	Public Services Network Accreditation	Indirect	Significant Enhancements	2	1	-	3
13.	Certifications and Software Licencing	Indirect	Significant Enhancements	2	-	-	2
14.	Implementation of Asset Strategy and CAFM system	Indirect	Significant Enhancements	3	-		3
Total 2018/19 – 14 reports				17	14	5	36
Total 2017/18 – 9 reports (6 Significant Enhancements; 3 Generally Adequate)				19	22	9	50

***Impact Definition**

Direct – Audits performed by the City of Edinburgh Council / NHS Lothian where control gaps identified have a direct impact on core IJB activities

Indirect – Audits performed by the City of Edinburgh Council / NHS Lothian where control gaps identified have an impact on ancillary IJB activities.

Appendix 3 - Summary of Internal Audit reports that form the basis of the 2018/19 Internal Audit Opinion and Open Internal Audit Findings

Table 4: NHS Lothian Internal Audit Reports

			Findings Raised				
		*Impact	Overall Report Outcome	High	Medium	Low	Totals
1.	Mandatory Training	Indirect	Significant Assurance	-	2	1	3
2.	Medicines Management on Wards	Indirect	Moderate Assurance	3	1	3	7
3.	Use of Nursing Midwifery Workload and Workforce Planning Tools	Direct	Moderate Assurance	1	5	1	7
4.	Complaints Management	Direct	Moderate Assurance	1	4	1	6
5.	IT Applications	Indirect	Significant Assurance	-	1	2	3
6.	Acute Site Masterplan	Indirect	Significant Assurance	-	1	-	1
7.	Procurement	Direct	Moderate Assurance	-	5	-	5
8.	Risk Management	Direct	Limited Assurance	2	2	-	4
9.	Winter Planning	Direct	Significant Assurance	-	3	-	3
10.	Healthcare Associated Infection	Indirect	Significant Assurance	-	3	1	4
11.	Estates Management	Indirect	Significant Assurance	-	2	1	3
12.	Financial Controls – Payroll	Indirect	Significant Assurance	-	1	2	3
13.	Cyber Security	Indirect	Significant Assurance	This review was undertaken by Grant Thornton as cyber security specialists. A separate report was provided which concluded that there was an overall level of LOW risk within NHS Lothian. Management actions have been agreed and will be			

				followed-up going forward.			
14.	GP Sustainability	Direct	Moderate Assurance	-	3	-	3
15.	Financial Sustainability	Direct	Moderate Assurance	-	1	-	1
Total 2018/19 – 15 reports				7	34	12	53
Total 2017/18 – 2 reports				2	3	2	7

***Impact Definition**

Direct – Audits performed by the City of Edinburgh Council / NHS Lothian where control gaps identified have a direct impact on core IJB activities

Indirect – Audits performed by the City of Edinburgh Council / NHS Lothian where control gaps identified have an impact on ancillary IJB activities.

Appendix 4 - Open and Overdue Internal Audit Findings as at 31 March 2019

	Number of open Internal Audit findings				Total
	Critical	High/ Critical	Medium/ Significant	Low/ Important	
EIJB open findings	-	10	6	-	16
EIJB overdue findings		8 (80%)	6 (100%)	-	14 (88%)
City of Edinburgh Council Health and Social Care Partnership open findings	-	2	10	2	14
City of Edinburgh Council Health and Social Care Partnership overdue findings	-	2 (100%)	8 (80%)	2 (100)	12 (86%)
Total Open Findings 2018/19	-	12	16	2	30
Total Overdue Findings 2018/19	-	10 (83%)	14 (88%)	2 (100%)	26 (87%)
Total Open Findings 2017/18	-	10	20	4	34
Total Overdue Findings 2017/18	-	7 (70%)	17 (85%)	4 (100%)	28 (82%)

Appendix 5 - Limitations and responsibilities of Internal Audit and management responsibilities

The opinion is based solely on the internal audit work performed for the financial year 1 April 2018 to 31 March 2019. Work completed was based on the terms of reference agreed with management for each review. However, where other matters have come to our attention, that are considered relevant, they have been taken into account when finalising our reports and the annual opinion.

There may be additional weaknesses in the EIJB control environment and governance and risk management frameworks that were not identified as they were not included in the 2018/19 EIJB annual internal audit plan; were excluded from the scope of individual reviews; or were not brought to Internal Audit's attention. Consequently, management and the Committee should be aware that the opinion may have differed if these areas had been included or brought to Internal Audit's attention.

Control environments, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making; human error; control processes being deliberately circumvented by employees and others; management overriding controls; and the impact of unplanned events.

Future periods

The assessment of controls relating to the Council is for the year ended 31 March 2019. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Audit

It is Management's responsibility to develop and effective control environments and governance and risk management frameworks that are designed to prevent and detect irregularities and fraud. Internal audit work should not be regarded as a substitute for Management's responsibilities for the design and operation of these controls.

Internal Audit endeavours to plan its work so that it has a reasonable expectation of detecting significant control weaknesses and, if detected, performs additional work directed towards identification of potential fraud or other irregularities. However, internal audit procedures alone, even when performed with due professional care, do not guarantee that fraud will be detected. Consequently, internal audit reviews should not be relied upon to detect and disclose all fraud, defalcations or other irregularities that may exist.