



**Gillian Morrison (Interim Chief Officer)**

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## **Integration Joint Board – Audit Committee**

Thursday, 17 September 2020, 14:00.

Microsoft Teams.

### **Minute**

#### **Present**

- Davie Campbell, Non-Executive Director, NHS Orkney.
- Issy Grieve, Non-Executive Director, NHS Orkney.
- Councillor John T Richards, Orkney Islands Council.
- Councillor Stephen Sankey, Orkney Islands Council.
- Frances Troup, Head of Housing, Homelessness and Schoolcare Accommodation Services, Orkney Islands Council.

#### **Clerk**

- Hazel Flett, Senior Committees Officer, Orkney Islands Council.

### **In Attendance**

#### **Orkney Health and Care:**

- Gillian Morrison, Interim Chief Officer.
- Pat Robinson, Chief Finance Officer.

#### **Orkney Islands Council:**

- John W Mundell, Interim Chief Executive.
- Andrew Paterson, Chief Internal Auditor.
- Katharine McKerrell, Solicitor.

#### **Audit Scotland:**

- Gillian Woolman, Audit Director.
- Claire Gardiner, Senior Audit Manager.

#### **Scott-Moncrieff:**

- Matthew Swann, Senior Manager.

## **Observing**

- Councillor Rachael A King, Orkney Islands Council.
- David Hartley, Communications Team Leader, Orkney Islands Council.
- Peter Thomas, Internal Auditor, Orkney Islands Council.
- Ellis Inkster, Press Officer, Orkney Islands Council.

## **Chair**

- Davie Campbell, NHS Orkney.

### **1. Apologies**

Apologies for absence had been intimated on behalf of the following:

- Jim Lyon, Interim Chief Social Work Officer, Orkney Islands Council.

### **2. Declarations of Interest**

There were no declarations of interest intimated in respect of items of business to be discussed at this meeting.

### **3. Minute of Previous Meeting**

There had been previously circulated the draft Minute of the Meeting of the Audit Committee held on 23 June 2020, which was **approved** as a true record.

### **4. Matters Arising**

#### **4.1. Finance Workshop**

Davie Campbell highlighted the final paragraph on page 3 of the Minute which referred to a finance workshop planned for August. Pat Robinson confirmed the workshop had been held on 17 August 2020, with 45 attendees, including the Chief Executives of both partners, Heads of Service and service managers. The workshop highlighted all ongoing issues and sought to generate ideas. Pat Robinson suggested a follow-up session be arranged, to consider the outcomes from the workshop.

#### **4.2. Internal Audit Plan**

Davie Campbell queried whether the Internal Audit Plan for 2020/21 should have been at this meeting for consideration and approval.

Matt Swann advised that the draft had been shared with management a number of weeks ago. Davie Campbell suggested that, rather than delay until the next scheduled meeting in November, the document should be circulated as soon as possible, with an additional meeting held by the end of September/beginning of October.

## 5. Budgetary Processes

There had been previously circulated the findings of an internal audit in respect of the IJB's budgetary processes, for scrutiny and for the Committee to seek assurance.

Andrew Paterson presented the report which related to an audit of the IJB's budgetary processes. The audit scope, set out on page 3 of the audit report, was to review controls in place to ensure that:

- Budgets for the financial year are set timeously and are approved by the commencement of the financial year.
- Performance against budgets is reported frequently and accurately, with adequate monitoring and scrutiny.
- The set aside budget for acute care has been delegated to the IJB in accordance with the expectation of legislation and effectively as a mechanism for shifting the balance of care.
- Savings for the 2019/20 and 2020/21 financial years in order to maintain balanced budgets are identified in sufficient detail.
- Recovery plans, if necessary, are defined in adequate detail.

Based on the findings of the review, the audit opinion provided limited assurances, with significant weakness in the framework of governance, risk management and control, such that it could be or become inadequate and ineffective.

The internal audit report contained seven recommendations, four of which were classed as high priority and three medium priority.

Davie Campbell advised that the internal audit report did not contain any surprises and welcomed progress this financial year.

Councillor Steve Sankey also commented that the internal audit report contained no surprises and, in fact, several of the high priority recommendations were outwith the control of the IJB – one example was setting budgets by the end of March, this was extremely difficult, if not impossible, considering timescales associated with announcements from Scottish Government on NHS Orkney's budgetary allocations.

Regarding the three recommendations relating to the set aside budget, Gillian Morrison confirmed that a report would be submitted to the IJB on 30 September 2020 with a proposal that a Direction be sent to NHS Orkney with robust scrutiny, including quarterly reporting back to the IJB. A partnership approach would be adopted, to consolidate the spend, with no shortfall incurred by the IJB.

Davie Campbell queried membership of the proposed working group. Gillian Morrison advised this would, in effect, comprise the Senior Management Team of Orkney Health and Care, liaising with the senior management teams of both Orkney Islands Council and NHS Orkney, although ultimately decisions would be taken by the IJB. Work had already commenced in that the Chief Finance Officer had been tasked to meet with the four Heads of Service within Orkney Health and Care to look at year end projections and potential savings, including patterns of underspends.

Councillor John Richards referred to the finance workshop held in August and suggested that a similar event be arranged for the IJB. Pat Robinson agreed this could be arranged. Regarding the issues raised in the internal audit report, she advised this was not about the partners unwilling to work together, however, the IJB three year financial plan was proving difficult to progress, given that neither the Council nor NHS Orkney received three year funding settlements and therefore were not willing to commit budget beyond one year.

The Audit Committee noted:

**5.1.** That an internal audit had been undertaken in respect of the IJB Budgetary Processes.

**5.2.** The findings contained in the internal audit report, attached as Appendix 1 to the report circulated, in respect of the IJB Budgetary Processes.

**5.3.** That an action plan to address the improvements identified and included within the internal audit report had been agreed with responsible officers.

The Audit Committee reviewed:

**5.4.** The audit findings, referred to at paragraph 5.2 above, and obtained assurance that action had been taken or agreed where necessary.

Andrew Paterson confirmed that, in accordance with the internal audit protocol, the internal audit relating to the IJB's budgetary processes would be reported to the Council's Monitoring and Audit Committee to be held on 24 September 2020.

## **6. Internal Audit Annual Report and Assurance Statement**

There had been previously circulated a report presenting the Internal Audit Annual Report and Assurance Statement for financial year 2019/20, to enable the Committee to seek assurance.

Matt Swann advised that, with effect from 7 September 2020, Scott-Moncrieff had undergone a name change and was now known as Azets, therefore this was the last report to be presented in the name of Scott-Moncrieff.

Matt Swann advised that the report followed a standardised approach and drew members' attention to the Internal Audit Opinion at the bottom of page 2, which stated:

"In our opinion Orkney Health and Social Care Integration Joint Board has a framework of controls in place that provides reasonable assurance regarding the organisation's governance framework, internal controls, effective and efficient achievement of objectives and the management of key risks. However, in the area of budget processes only limited assurance of the operation of controls can be provided."

The report referred to the two audits undertaken during 2019/20, including the audit report relating to the IJB's budgetary processes considered earlier in the meeting.

The Audit Committee obtained assurance from the Internal Audit Annual Report and Assurance Statement for 2019/20, attached as Appendix 1 to the report circulated.

## **7. External Audit Report to those charged with Governance**

There had been previously circulated a report setting out the independent audit opinion on the Annual Report and Statement of Accounts for the Integration Joint Board for the year ended 31 March 2020, to enable the Committee to seek assurance.

Gillian Woolman advised this was an important report and members should not lose sight of the £60 million which flowed through the annual accounts. Annex 1, the independent auditor's report, still contained the original date of the meeting, 26 August 2020, however she confirmed she would be issuing an unqualified opinion. She was also pleased that there were no unadjusted misstatements identified during the course of the audit. She would also be seeking written representations from the Chief Finance Officer on aspects of the annual accounts which would then result in the revised annual report and accounts being checked, prior to sign off, following which the audit certificate would be signed.

Appendix A detailed the proposed independent auditor's report which, in her opinion, stated that the accompanying financial statements gave a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code). The accounts were prepared on the basis of a going concern. Although this was a big issue for the private sector, given the current circumstances, this was not the case with the public sector, whereby it was assumed services would continue for at least the next 12 months. Finally, there was nothing to report by exception.

Appendix B was the proposed letter of representation from the Chief Finance Officer to the independent auditor, which provided reassurance on the information made available for the purpose of the audit.

Annex 2 was the signed letter of representation, replicating the draft attached as Appendix B.

Annex 3 was the Annual Audit Report prepared for the IJB and the Controller of Audit. Gillian Woolman suggested that the key messages be shared with the wider IJB so that all members were fully engaged, as well as shared with the two partner organisations.

The Introduction linked back to the original audit plan, with Exhibit 1 outlining the audit dimensions. Subsequent to issuing the annual audit plan, the IJB and partner bodies had to respond to COVID-19, which impacted on the final month of the year, and would continue to have a significant impact into financial year 2020/21. It was important to note, however, that the Chief Finance Officer had submitted the accounts by the original dates, being one of a small number of integration authorities to achieve that timescale, for which the external auditor was extremely grateful.

Part 1, on page 8 onwards, detailed the unqualified audit opinion. Paragraph 18 was highlighted, relating to the high standard of working papers submitted with the draft accounts. As the audit was undertaken remotely, this was a steep learning curve for all involved. Exhibit 2 set out the materiality values – the trigger points for changing figures or revising the audit. Finally, there were no significant findings to report on the annual accounts. Exhibit 3 related to the management commentary and reporting on performance, whereby the draft accounts contained information from 2017/18.

The final accounts presented for signing now included more up to date performance information.

Part 2, financial management and sustainability, had strong links to the internal audit report on budgetary processes, considered earlier. Although a small surplus was recorded at the year end, this was held as earmarked reserves relating to NHS Orkney services. A savings target of £4.2 million required to be achieved over the next three year period. The revision of the Integration Scheme was still to be undertaken. A substantial change was due in 2020/21, whereby the set aside budget would be transferred from NHS Orkney to the IJB, in accordance with legislation.

Referring to page 13, Gillian Woolman understood the challenges with various timescales which hampered budget setting and three year financial planning, however she encouraged the IJB to strive to achieve this. Although the Board had a Medium Term Financial Plan in place, the implications of COVID-19 should be incorporated, once fully understood, and monitored thereafter.

Audit Scotland was presently external auditor for both Orkney Islands Council and NHS Orkney, and relied on information generated by both internal audit services (in-house for Orkney Islands Council and Scott-Moncrieff for NHS Orkney) for key financial systems and to ensure appropriate arrangements were in place for the prevention and detection of fraud and error.

Part 3, Governance, transparency and best value, was an important area for the public sector, and the annual audit report concluded there were satisfactory arrangements in place for governance. COVID-19 had created significant challenges, as had a number of personnel changes in key posts, with interim arrangements in place from July 2020. An assessment of Best Value within the IJB's performance report would be monitored and reported on further in the annual audit report for 2020/21. It was noted that the annual performance report would be considered by the Board in due course, as permitted by the Scottish Government.

Appendix 1 set out the action plan for 2019/20, detailing the issue or risk, associated recommendation and agreed management action/timing. The Audit Committee should monitor this action plan. It was noted that the one recommendation carried over from the 2018/19 audit plan, relating to the assessment of the impact of GDPR, was complete.

Appendix 2 set out the significant audit risks identified during planning and how each risk was addressed in arriving at the auditor's conclusion.

Appendix 3 summarised the national performance reports issued by Audit Scotland during 2019/20.

Davie Campbell thanked Gillian Woolman for the comprehensive overview of the annual audit report, resulting in an unqualified set of accounts. He also extended his thanks to Pat Robinson, particularly in achieving the original timescale for submitting the draft accounts, given the circumstances with COVID-19.

Councillor Steve Sankey made reference to three recommendations:

- Recommendation 5 – he welcomed the proposal for refresher training, particularly in relation to NHS finances.

- Recommendation 2 – budget approval was a bit of a cat and mouse game, and there was precious little the IJB could do if NHS Orkney was hamstrung by timescales dictated by the Scottish Government. However, the working group to be established to look at efficiency savings may be a step in the right direction.
- Recommendation 6 – this was a hard hitting recommendation stating that the IJB did not have effective arrangements for scrutinising performance, which appeared to be at odds with the internal audit report and assurance statement considered earlier in the meeting, which reported these arrangements as adequate.

Gillian Morrison advised that a high priority was to fill the vacant post of Planning and Performance Officer. The job description was nearly complete and she had asked that this post be line managed by the Chief Finance Officer. Further, she would offer assistance, given her background in performance management systems. Clear performance indicators were required in order to provide the Board with assurance that the aspirations of the Strategic Commissioning Implementation Plan, which was still to be written, were being driven.

Regarding the Annual Performance Report, while signed off by the IJB, it demonstrated delivery to Orkney Islands Council and NHS Orkney. Work was ongoing with colleagues from Public Health Scotland to draw all the necessary information together with a view to the APR being submitted to the Board meeting scheduled for 30 September.

Issy Grieve asked Gillian Woolman how Orkney compared with other IJBs. Gillian Woolman advised that she covered five IJBs in her portfolio. Regarding accounts and the 2019/20 annual audit report, she had signed off one, while another IJB had only just submitted its draft accounts within the last 10 days, therefore Orkney was in a good place regarding financial reporting. With regard to performance and partnership working, two of the five had well established frameworks, which the management commentary had detailed over the past four years. Audit Scotland was currently drafting its third report on health and social care partnerships, with publication pushed back due to COVID-19.

Matt Swann referred to Councillor Sankey's point on the apparent contradiction between the internal audit report and the annual audit report. Although not explicit in the internal audit report, the audit on the IJB strategy did refer to the lack of SMART targets.

The Audit Committee noted:

**7.1.** That Audit Scotland, as the Integration Joint Board's external auditor, had concluded its audit of the Integration Joint Board's Financial Statements for the year ended 31 March 2020.

**7.2.** That Audit Scotland had provided an unqualified certificate on the Integration Joint Board's Financial Statements for the year ended 31 March 2020.

**7.3.** Audit Scotland's report to those charged with governance on the 2019/20 audit of the Integration Joint Board's Financial Statements, attached as Annex 1 to the report circulated, in accordance with the International Standard of Auditing 260.

**7.4.** The Integration Joint Board's Letter of Representation to Audit Scotland in connection with its audit of the financial statements of the Integration Joint Board for the year ended 31 March 2020, attached as Annex 2 to the report circulated.

**7.5.** The Annual Audit Report to Members and the Controller of Audit in respect of the Integration Joint Board's Financial Statements, attached as Annex 3 to the report circulated.

## **8. Final Annual Accounts**

There had been previously circulated a report presenting the final Annual Accounts for financial year 2019/20, for scrutiny and approval.

Pat Robinson expressed her thanks to Gillian Woolman and her team at Audit Scotland for guidance and patience during the audit process and for providing examples of good practice. The annual accounts presented for approval, although similar to the draft accounts presented to the Audit Committee on 23 June 2020, did contain some presentational changes.

Section 4 detailed the operational review and now included created and future workstreams. Although COVID-19 had limited impact on the 2019/20 accounts, financial reports continued to be submitted to the Scottish Government via NHS Orkney, in anticipation of reimbursement of additional costs, although there was no guarantee of full reimbursement. This would require to be taken into account when reviewing the Medium Term Financial Plan.

Performance reporting had already been discussed and local performance reporting would improve, once recruitment to the vacant post was complete.

Although the unscheduled care budget of £8.617 million was not formally delegated to the IJB for financial year 2019/20, a paper would be submitted to the IJB on 30 September regarding this budget going forward. A reduction in funding of £130k was applied at year end by NHS Orkney, with that amount being reinstated in the budget for 2020/21.

Pages 21 to 23 detailed the remuneration report, with just two posts seconded – the Chief Officer and the Chief Finance Officer. The Chair and Vice Chair of the IJB were not remunerated by the Board, but by their respective partner agencies.

The Annual Governance Statement, detailed on pages 24 to 28, was prepared using the CIPFA/SOLACE framework, by defining the principles underpinning good governance and subsequently, how the Board complied with each principle.

Page 28, review of adequacy and effectiveness, related back to the internal audit annual report and assurance statement considered earlier.

The independent auditor's report was replicated on pages 32 to 35, which Gillian Woolman had addressed previously.

The financial statements and accompanying notes were detailed from page 36 onwards.



Davie Campbell queried whether there were any changes to the draft accounts considered by the Audit Committee in June and what arrangements were in place for signing the accounts.

Pat Robinson confirmed that some presentational changes had been made, in order for the document to flow better. It had previously been agreed that the Interim Chief Executive of Orkney Islands Council, together with the Chair of the IJB, Councillor Rachael King, who was observing this meeting, would, following a check through the papers, provide digital signatures where indicated. Thereafter, Audit Scotland would undertake a final check prior to sign off.

The Audit Committee thereafter **approved** the audited annual governance statement and accounts for year ended 31 March 2020, attached as Appendix 1 to the report circulated.

## **9. Date and Time of Next Meeting**

It was agreed that the next meeting be held on Wednesday, 18 November 2020, virtually via Microsoft Teams, noting that an additional meeting would be arranged to consider the internal audit plan for 2020/21.

## **10. Conclusion of Meeting**

There being no further business, the Chair declared the meeting concluded at 15:00.