

Integration Joint Board

Date of Meeting: 23 November 2022

Title of Report: Audited Annual Accounts 2021/22

Presented by: James Gow, Head of Finance and Transformation

The Integration Joint Board is asked to:

- **Note that Audit Scotland have completed their audit of the annual accounts for 2021-22 and have issued an unqualified Independent Auditor's Report.**
- **Consider the 2021/22 Annual Audit Report prepared by Audit Scotland and management responses to the recommendations.**
- **Approve the draft letter of Management Representation to Audit Scotland.**
- **Approve the Audited Accounts for signature and publication.**

1. EXECUTIVE SUMMARY

- 1.1 The Integration Joint Board is required to produce a set of audited annual accounts for 2021/22. These accounts were produced within the revised, extended timescale and have been subject to independent audit by the external auditors, Audit Scotland. The audit process has been completed and Audit Scotland have issued an unqualified report. The Accounts, Audit Report and Letter of Representation have all been considered by the Audit & Risk Committee at its meeting on the 9th November.
- 1.2 The purpose of this report is to enable the Integration Joint Board to review the Annual Report and Accounts. The Annual Accounts are provided as Appendix 1. These are prepared in line with current guidance and provide detail on financial performance, governance arrangements and the independent external audit report. These require to be signed by the Chair, Chief Officer and Head of Finance & Transformation.
- 1.3 In respect of financial performance the accounts are reporting that the HSCP underspent against the allocations made available to it, repaid its outstanding debt in full and ended the year with increased earmarked reserves. These have all been earmarked for specific purposes.
- 1.4 In addition to the audit report contained within the Annual Accounts, Audit Scotland have also prepared a more detailed Annual Audit Report (Appendix 2). This will also be made publicly available in due course. Whilst the Annual Audit Report makes no recommendations for improvement in terms of accounting and financial reporting it does highlight the financial sustainability risk facing the IJB and the public sector more widely at the current time.

2. INTRODUCTION

- 2.1 The Integration Joint Board is required to produce an audited set of annual accounts for 2021-22. The unaudited accounts were produced in line with the agreed timetable and statutory timescales and approved by the Audit & Risk Committee on 28 June 2022 for publication and submission to external audit. The Audit process is now complete and the audited accounts require to be approved by the Integration Joint Board prior to 30 November 2022 as a result of the agreed extended deadlines in place for IJB financial reporting.

3. DETAIL OF REPORT

- 3.1 The Integration Joint Board was established under the requirements of the Public Bodies (Joint Working) (Scotland) Act 2014 and is a section 106 body as defined in the Local Government (Scotland) Act 1973. The financial statements are therefore prepared in compliance with the Code of Practice on Local Authorities Accounting in the United Kingdom supported by International Financial Reporting Standards (IFRS) unless legislation or statutory guidance requires different treatment.
- 3.2 The Annual Accounts are subject to independent audit by Audit Scotland and some minor changes have been made in respect of disclosures and the narrative contained within the report. There has also been one change to the figures initially presented which was to add £395k (net) to both income and expenditure. This has had no impact on the net expenditure position and has not changed the closing reserves balances or the repayment of debt to the council. The adjustment related to the way in which PPE related income and expenditure is accounted for by Argyll & Bute Council. The Audited Annual Accounts for 2021-22 are included as Appendix 1, these incorporate the Independent Auditors Report.
- 3.3 Audit Scotland are able to conclude that the Integration Joint Board's accounts present a true and fair view of the financial performance of the IJB during the year. The Independent Auditors Report provides further information on the audit process and basis of the opinion. It is acknowledged that the IJB is highly dependent upon both partners in respect of financial accounting processes and systems.
- 3.4 Audit Scotland have prepared an Annual Audit Report for consideration by the IJB (Appendix 2). This indicates that the auditors are content with financial accounting and reporting and concludes that governance and arrangements for securing value for money were likewise appropriate during the year. Whilst the report makes no recommendations for improvement in respect of financial stewardship or reporting, it does make recommendations in respect of the wider operating environment and the financial sustainability challenge currently faced by the HSCP. The recommendations and the management responses are included in the Audit Scotland report and relate to:
- Financial Sustainability; and
 - Performance Reporting.

In respect of financial management and governance, Audit Scotland conclude:

'Senior management and members receive regular and accurate financial information on the IJB's financial position and have concluded

the IJB has appropriate budget monitoring arrangements in place. Comprehensive budget monitoring reports are reported to the Board and the Finance and Policy Committee. These contain information on the year-to-date financial position, forecast outturn for the year, variance analysis with explanations, progress in delivering savings and significant financial risks. The reports contain enough detailed information to enable members to carry out effective scrutiny and challenge of the IJB's finances.'

'The IJB has appropriate governance arrangements in place that support the scrutiny of decisions by the Board. Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively. There is effective scrutiny, challenge and informed decision making.'

The report also highlights that the Scottish Government have indicated their intention to clawback some of the reserves held by IJBs.

- 3.5 In respect of financial performance, a summary of spend and resources is provided below:

2020/21		2021/22
£'000		£'000
97,500	Employee Costs	101,153
10,100	Premises Costs	10,009
14,667	Supplies and Services	15,183
2,362	Transport Related Costs	3,201
142,976	Third Party Payments	148,745
(17,331)	Income	(19,104)
50,281	Primary Care Services	52,930
274	Other	248
300,829	Total Expenditure	312,365
(306,809)	Total Funding	(326,975)
(5,981)	Excess Funding / Increase in Earmarked Reserves	(14,610)

Total reported spend for the year increased by 3.8% against the prior year with direct staff costs accounting for 32% of net expenditure.

- 3.5 The funding allocated to the HSCP during the year was reduced by the debt repayment. The balance owed at the start of the year was £2.8m, funding up to this total was retained by Argyll and Bute Council and the debt is now settled in full. Additionally, £2.6m was repaid in 2020/21 (£5.4m repaid in total).
- 3.6 In respect of the balance sheet, the debtor is equivalent to the earmarked reserves held by NHS Highland and Argyll and Bute Council. These reserves have all been earmarked for specific purposes and a short description of this is included in Note 7 of the annual report. The aggregated position is:

Reserves	£'000
Opening Reserves Balance	6,586
Spend against opening reserves	(3,555)
Unspent funds allocated to reserves	18,166
Closing Reserves	21,196

Of the closing reserves, £20.5m is earmarked for specific purposes which align to the purposes for which they were allocated (mostly by the Scottish Government). The HSCP is reporting a general underspend of £682k and it has allocated this to its general reserve and earmarked it to pay for specific transformation projects which are progressing in 2022/23.

3.7 In summary, the accounts present a favourable view of financial performance, summarise progress with the governance improvement agenda and highlight the new strategic plan. This represents the second year in succession whereby the HSCP has operated within budget and now has resource at its disposal to start to progress improvement and transformation projects.

3.8 The Integration Joint Board is also asked to approve the draft letter of management representation (Appendix 3).

4. RELEVANT DATA AND INDICATORS

4.1 Information contained within the accounts is derived from the financial systems of NHS Highland and Argyll and Bute Council. The audit of the IJB accounts is supported by the audits of both partners.

5 CONTRIBUTION TO STRATEGIC PRIORITIES

5.1 The annual accounts are a key statutory reporting and accountability requirement. They communicate both financial and key service delivery performance information in an accessible public document.

6. GOVERNANCE IMPLICATIONS

6.1 Financial Impact – The IJB is required to consider and approve the Audited Annual Accounts for 2021-22 by 30th November 2022. The accounts present a favourable summary of financial performance during 2021/22 and the position at the year end. The Annual Audit Report provides important independent assurance to the IJB in respect of financial management and governance. The audit report refers to actions currently being taken by the Scottish Government to seek to claw back some of the reserves held by HSCPs.

6.2 Staff Governance – None

6.3 Clinical Governance - None

7. EQUALITY & DIVERSITY IMPLICATIONS

7.1 None

8. GENERAL DATA PROTECTION PRINCIPLES COMPLIANCE

8.1 None

9. RISK ASSESSMENT

9.1 There are no changes to the risk register arising from the contents of this report. The improved financial position is reflected in a reduced level of risk in respect of financial sustainability. The reserves position means that there is risk that future funding is affected by levels of reserves held within IJB's nationally. The Auditor has highlighted the medium term risk relating to financial sustainability and the outlook for funding of public services going forward.

10. PUBLIC & USER INVOLVEMENT & ENGAGEMENT

10.1 The unaudited annual accounts were made publicly available for comment. The accounts will be made publicly available by the HSCP and the Annual Audit Report will be published by Audit Scotland.

11. CONCLUSIONS

11.1 The Audited Annual Accounts for 2021-22 require to be approved by the IJB by 30 November. These were audited by Audit Scotland, the IJB external auditors, and an unqualified independent auditors report has been received. There were a small number of changes required to the unaudited accounts as part of the audit process. The accounts report that the IJB operated within budget during the year, repaid all of the debt due to Argyll & Bute Council and that its governance arrangements were appropriate. The Audit report provides the Board with independent assurance in respect of financial management and governance.

12. DIRECTIONS

Directions required to Council, NHS Board or both.	Directions to:	tick
	No Directions required	√
	Argyll & Bute Council	
	NHS Highland Health Board	
	Argyll & Bute Council and NHS Highland Health Board	

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APPENDICES:

Appendix 1: Audited Annual Accounts 2021-22 and Audit Report

Appendix 2: Audit Scotland Annual Audit Report

Appendix 3: Draft Letter of Management Representation to Audit Scotland