

Good practice note on improving the quality of local authority annual accounts

Integration joint boards



 AUDIT SCOTLAND

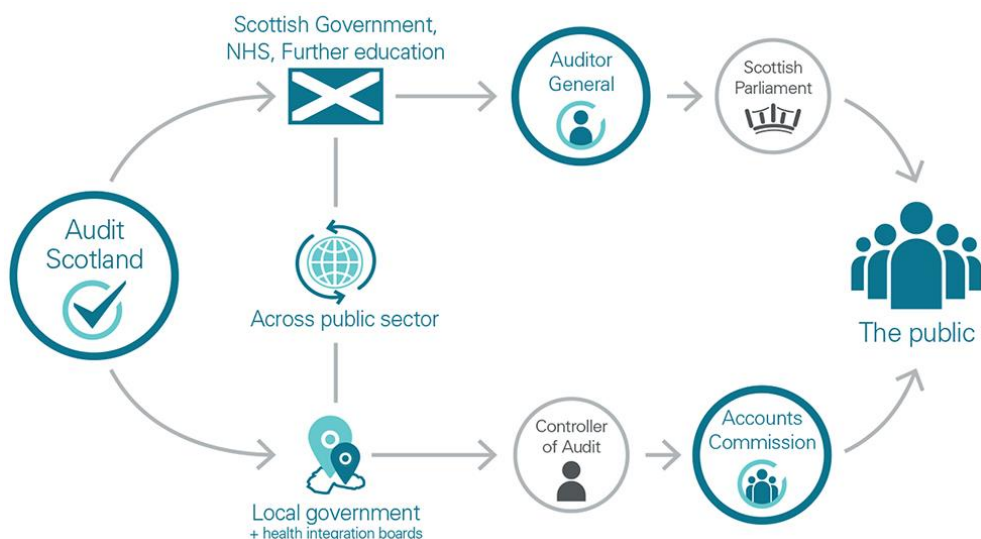
Prepared for integration joint boards and appointed auditors

23 April 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

A single story

- 1 The narrative in the management commentary and annual governance statement should be consistent with the accounting information in the financial statements.
- 2 Significant points in the financial statements should be explained in the management commentary.

How funding was used

- 3 The management commentary should give a clear and balanced account of how funding was used.
- 4 Explanations of the IJB's business model should be provided.
- 5 The salient features of the IJB's performance and position should be explained in a balanced way.

What worries board members

- 6 The risks and uncertainties described in the management commentary should genuinely be the principal risks and uncertainties that the board members are concerned about.
- 7 The descriptions should be sufficiently specific that users can understand why they are important to the board members.
- 8 The management commentary and annual governance statement should describe the mitigating actions to manage the impact of the principal risks and uncertainties and significant governance weaknesses. The links to accounting estimates and judgements should be clear.

Consistency

- 9 Highlighted or adjusted figures, key performance indicators and other measures referred to in the management commentary should be clearly reconciled to the relevant amounts in the financial statements.
- 10 Any adjustments to the figures in the management commentary should be clearly explained, together with the reasons why they are being made.

Cut the clutter

- 11 Important messages, policies and transactions should be highlighted and supported with relevant context and not obscured by immaterial detail.
- 12 Cross-referencing and signposting should be used effectively, and repetition avoided.

Summarise

- 13** Items should be reported at an appropriate level of aggregation.
- 14** Tables should be supported by, and consistent with, the accompanying narrative.

Explain change

- 15** Significant changes from the prior period, whether matters of policy or presentation, should be properly explained.

True and fair

- 16** The spirit as well as the letter of proper accounting practices should be followed.

Introduction

Purpose

1. Audit Scotland promotes good practice in financial reporting in Scottish public bodies. Audit Scotland's Professional Support carry out reviews of annual accounts to identify and share examples of good practice reporting and highlight areas where improvements can be made.
2. This good practice note shares the findings from a review of the 2016/17 annual accounts of integration joint boards (IJBs).
3. IJBs are encouraged to use the findings in this report to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts.

IJBs should use this good practice note to assess and enhance their own annual accounts.

Context

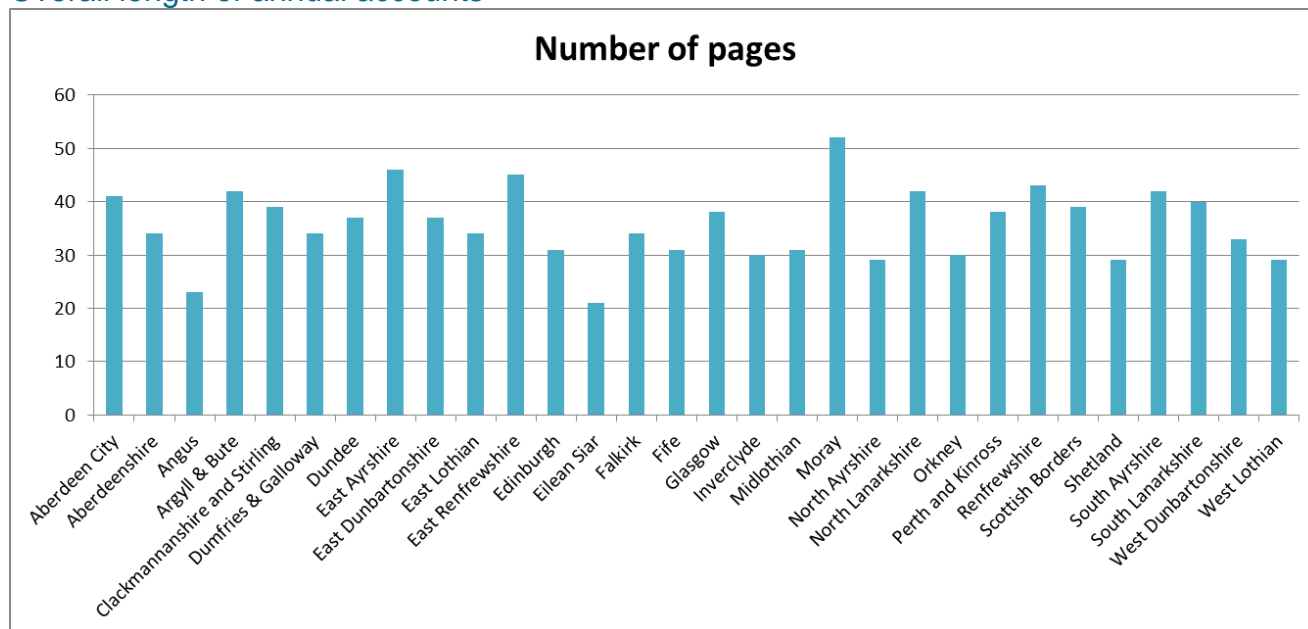
4. IJBs were established under the Public Bodies (Joint Working) (Scotland) Act 2014. As they fall within section 106 of the Local Government (Scotland) Act 1973, IJBs are required to prepare their annual accounts in accordance with [The Local Authority Accounts \(Scotland\) Regulations 2014](#) (the accounts regulations).
5. The annual accounts comprise a number of components, and the information contained in each component has different objectives. The main components that IJBs are required to include in their annual accounts are
 - financial statements
 - management commentary
 - annual governance statement
 - remuneration report.
6. The annual accounts of IJBs were chosen for good practice review as 2016/17 was their first full year of operation. Under the Act, a health board and one or more councils (referred to in the Act as 'constituent authorities' but generally referred to as partners) delegate functions and contribute funding to the IJB in respect of those functions. The IJB commissions services from, and makes payment to, the constituent authorities for delivery of those services. IJBs are therefore part of a complex set of arrangements which makes 'telling their story' to stakeholders a particular challenge.
7. The review was based solely on the annual accounts and was carried out by a team with knowledge of the relevant financial reporting framework. However, the team does not have a detailed understanding of each IJB's particular circumstances or the specific underlying transactions.
8. CIPFA Scotland and IJB chief finance officers produced a template to assist in the preparation of the 2016/17 annual accounts. However, a comparison of the lengths of the annual accounts showed a significant variation that

The average length of the accounts was 36 pages. The longest was 52 pages and the shortest 29.

was not always explained by the relative size of the IJBs. The number of pages in each are summarised in Exhibit 1.

Exhibit 1

Overall length of annual accounts



9. IJBs at the upper end of the range may wish to consider whether they can streamline their accounts, while those at the lower end will want to satisfy themselves that they are providing users of the accounts with sufficient information.

Proper accounting practices

10. Proper accounting practices for the annual accounts are set out in
- the Code of Practice on Local Authority Accounting in the United Kingdom (the accounting code) for the financial statements
 - statutory guidance in finance circular 5/2015 for the management commentary
 - the schedule to the accounts regulations for the remuneration report
 - The Delivering Good Governance in Local Government Framework for the annual governance statement.
11. The audit of the 2016/17 annual accounts of each IJB was carried out by appointed external auditors, and was concerned with expressing opinions on whether the accounts were prepared in accordance with these proper accounting practices. As there were no qualified opinions, there is reasonable assurance that minimum disclosure requirements were met. However, it should not be inferred that there is no scope for IJBs to improve the quality of their annual accounts.

Unqualified
audit opinions
do not mean
there is no
scope for
improving the
quality of annual
accounts.

Characteristics of good annual accounts

12. Beyond basic compliance with proper accounting practices, there are nine characteristics of financial reporting which Professional Support believe make for good annual accounts. These characteristics are summarised in Exhibit 2.

Exhibit 2



These characteristics are based on those used by the Financial Reporting Council adapted for the public sector context.

13. The remainder of this good practice note is structured around these characteristics, and it discusses and highlights some of the good practice adopted by IJBs in relation to each one. The note also includes recommendations to assist all IJBs achieve good practice.

Contact points

14. The contact points for this good practice note are Neil Cameron, Manager (Professional Support) - 0131 625 1797 or Helen Cobb, Senior Adviser (Professional Support) - 0131 625 1901.

The examples used in this note are all taken from IJBs' 2016/17 annual accounts.

Part 1

A single story



Key messages

The narrative in the management commentary and annual governance statement should be consistent with the accounting information in the financial statements.

Significant points in the financial statements should be explained in the management commentary.

Consistency with financial statements

15. Auditors are required to express an opinion on whether the information in the management commentary and annual governance statement is consistent with the financial statements.
16. There were no qualified opinions in 2016/17, and the good practice review did not reveal any inconsistencies. However, we are aware that a number of substantial adjustments were required during the audit process to allow this to be the case.
17. IJBs should satisfy themselves that the narrative in the management commentary and annual governance statement in the unaudited accounts is consistent with the accounting information in the financial statements.

A number of audit adjustments to the narrative were required to ensure consistency with the financial statements.

Explaining significant points in financial statements

18. The annual accounts should be cohesive and enable related information to be linked together. Information that is important to users of the accounts should be prominent and accessible.
19. The statutory guidance requires the management commentary to include references to, and additional explanations of, amounts included in the IJB's financial statements. The references should explain the conditions and events that shaped the information contained in the financial statements.
20. IJBs generally explained important points in the financial statements such as significant under or overspends. Exhibit 3 provides an example.

Significant points should be explained in the management commentary so that there are no surprises hidden in the financial statements.

Exhibit 3

The key messages from our first full year of operation during the financial year 2016/17 are:

- On a total budget allocation of £167.693m from WDC and NHSGGC, including Set Aside and Hosted Services, we have ended the year with a surplus of £3.956m;
- This represents previously reported underspends in Social Care, mainly from unapplied Social Care Fund resources and planned for service underspends across Health Services to be held in reserve to mitigate any future budget volatility and underwrite the delivery of approved savings plans;
- This surplus will be added to the reserves brought forward from 2015/16 of £1.612m;

Identify significant points in the financial statements and explain them in the management commentary.

Part 2

How funding was used



Key messages

The management commentary should give a clear and balanced account of how funding was used.

Explanations of the IJB's business model should be provided.

The salient features of the IJB's performance and position should be explained in a balanced way.

Clear and balanced account

21. The statutory guidance on the management commentary requires a fair review of the IJB's business. The management commentary should address the positive and negative aspects of the development, performance, position and future prospects of the IJB openly and without bias.
22. IJBs should seek to ensure that users of the accounts are not misled as a result of the presentation of, or emphasis given to, information in the management commentary or by the omission of material information from it.
23. While not a specific requirement of the statutory guidance, some IJBs provided a conclusion at the end of the management commentary. This provided a balanced summary of the progress being made by the IJB. An example is provided at Exhibit 4.

The management commentary should address the positive and negative aspects of the development, performance, position and future prospects.

Exhibit 4

Conclusion

In its first year, Cúram is Sláinte has successfully established the governance arrangements necessary to support effective decision making and has been able to deliver services within budget. Progress has been made in implementing the strategic plan, and wider performance on the national health and well-being outcomes has been tracked and benchmarked against national trends. Cúram is Sláinte performs well in some areas, with high levels of customer satisfaction, but has more to do in reducing delays from hospital and reducing emergency admissions. Overall, the first full year has represented steady performance, and the Board will continue to pursue and promote good governance as it moves forward into the next phase of development.

Provide a balanced summary in the management commentary of the progress being made.

Explaining the strategy and business model

24. The statutory guidance requires a description of the IJB's strategy and business model.
25. The description of the strategy for achieving an IJB's objectives should provide insight into its development, performance, position and future prospects.
26. In addition, the disclosure of the IJB's objectives places the strategy in context and allows users of the accounts to make an assessment of its appropriateness. Exhibit 5 provides an example of this.

Descriptions should provide insight into the development, performance, position and future prospects.

Exhibit 5

Our 9 Local Objectives are:

1. We will make services more accessible and develop our communities
2. We will improve prevention and early intervention
3. We will reduce avoidable admissions to hospital
4. We will provide care close to home
5. We will deliver services within an integrated care model
6. We will seek to enable people to have more choice and control
7. We will further optimise efficiency and effectiveness
8. We will seek to reduce health inequalities
9. We want to improve support for Carers to keep them healthy and able to continue in their caring role

27. The description of the business model should set out how the IJB generates or preserves value over the longer term, and how it captures that value. It should describe what the IJB does and why it does it, and should also provide a high level understanding of how the IJB is structured.
28. IJBs obtain funding from the council and health board partners to deliver the delegated functions as set out in the integration scheme. IJBs do not all have the same delegated functions and so may report their income and expenditure differently. It is for the IJB to determine the most appropriate way of operating.
29. In our view, around half of IJBs adequately disclosed information on their strategy and business model. The best disclosures linked the national outcomes to the local strategic plan and outlined the approaches to achieving these objectives, as demonstrated at Exhibit 6.

Exhibit 6

The IJB's Strategy and Business Model

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

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

30. Most of the other IJBs made some disclosures, but the information was often high level and generic.
31. Six IJBs did not disclose information on their strategy or business model.

Include descriptions of strategy and business model that are specific and provide insight.

Explain the IJB's objectives so users can place the strategy in context.

Analysis of performance and position

32. The required fair review of the IJB's business should be a balanced and comprehensive analysis of
 - the development and performance of the business during the financial year
 - the position of the IJB's business at the end of the year, consistent with the size and complexity of the business.
33. The statutory guidance requires financial key performance indicators (KPIs), as well as any non-financial performance indicators that board members consider relevant, to provide an analysis of the IJB's past performance.
34. The KPIs reported should be those that the board members judge to be most effective in assessing progress against objectives or strategy, monitoring principal risks, or are otherwise utilised to measure the development, performance or position of the IJB.
35. The IJB should provide information that enables users to understand each KPI used in the management commentary. For example, the following information should be identified and explained where relevant:
 - its definition and calculation method
 - its purpose
 - the source of underlying data
 - any significant assumptions made.
36. Overall there was very little reporting of performance in the 2016/17 annual accounts. IJBs tended to focus on factual points such as the financial position at the end of the year rather than provide an analysis of how the IJB performed. Good disclosures made by some IJBs provided a high level introduction with a good balance of information.
37. Only a few IJBs provided narrative explaining the results or action required to address performance issues. This makes it difficult for the user to understand how well the board has performed. Further information could have been provided on performance compared to previous years or other IJBs.
38. Exhibit 7 provides an example of a good presentation that explains performance to users.

There was very little reporting of performance in the 2016/17 annual accounts.

Exhibit 7

H&SC Survey questions aligned to National Outcome Indicators	2015/16	+/- Scottish Rate
I am able to look after my own health	96%	+2
Service users are supported to live as independently as possible	92%	+8
Service users have a say in how their help, care or support is provided	77%	-2
Service users' health and care services seem to be well coordinated	83%	+8
Rating of overall help, care or support services	83%	+2
Rating of overall care provided by GP practice	92%	+5
The help, care or support improves service users' quality of life	92%	+8
Carers feels supported to continue caring	59%	+17
Service users feel safe	91%	+7
Staff who say they would recommend their workplace as a good place to work.	69%	0

In terms of system measures, we have similarly performed well against national benchmarks and see an improving picture in relation to discharge from hospital. However, in line with national trends, we are seeing a greater rate of emergency admissions and emergency bed days:

National Outcome Indicators	Western Isles March 2017	Western Isles March 2016	Scotland Rate
Premature mortality rate (per 100,000)	490	441	441
Rate of emergency admissions for adults (per 100,000)	13,636	12,896	12,037
Rate of emergency bed days for adults (per 100,000)	159,045	140,211	119,649
Readmissions to hospital within 28 days of discharge (per 1000)	86	86	95
Proportion of last 6 months of life spent at home or in community setting	87%	88%	88%
Falls rate per 1,000 population in over 65s	23	18	21
Proportion of care services graded 'good' (4) or better in Care Inspectorate inspections	81%	82%	83%
Percentage of adults with intensive needs receiving care at home	70.7%	70.4%	61.6%
Number of days people (75+) spend in hospital when they are ready to be discharged (rate per 1000)	2,194	2,540	842
Percentage of total health and care spend on hospital stays where the patient was admitted in an emergency	23%	21%	23%

Although we are demonstrating real improvement across a number of indicators, we have had ongoing challenges in managing delayed discharges, in common with most partnership areas. As a partnership, we are committed to reducing the length of time that older people wait in hospital despite being ready for discharge. Hospitals are not the most appropriate setting for long-term patient care. We have been working hard to turn this around through the implementation of an action plan. The action plan focuses on capacity issues, as well as issues around culture and practice. As evidenced below, delays in hospital have reduced markedly since January.

39. Some IJBs included only a link to the information on their website without any analysis or explanation of performance against their KPIs. A few IJBs provided a hyperlink to their annual performance report (see Exhibit 8). While that provides helpful information, a balanced summary of that report should be included in the management commentary.
40. Most IJBs provided a link to their integration scheme. While crucial to the operation of the IJB, the integration scheme will not provide the user with information on performance.

Links to the annual performance report need to be accompanied by explanatory commentary.

Exhibit 8

In addition to the quarterly reports, the first Annual Performance Review was approved by the Integration Joint Board on 21 June 2017 and published on 31 July 2017 in line with statutory guidance. In this report, we review our performance for 2016/17 against agreed local and national performance indicators and against the commitments within our first Strategic Plan.
https://glasgowcity.hscp.scot/sites/default/files/publications/21_June_ITEM_No_21_-

Provide explanations of performance against each indicator and outline any action required.

Explaining reserves

41. Any underspends at the year end retained by IJBs are shown in reserves. Although they have the powers to hold other statutory usable reserves, at 31 March 2017 all IJBs only held a general fund.
42. IJBs should manage reserves so that they have flexibility to react to future demands. Fifteen IJBs earmarked amounts within the general fund for specific purposes. For example, the IJB in Exhibit 9 earmarked portions of the general fund for twelve allocated purposes and left some unallocated for contingencies. This disclosure helps users to understand the demands the IJB faces in the future.

Exhibit 9

11. Usable Reserve: General Fund (Cont.)				Useable Reserve	2016/2017		
2015/2016		Balance as at 31 March 2016			Transfers Out	Transfers In	Balance as at 31 March 2017
Balance as at 1 April 2015	Transfers Out						
£m	£m	£m	£m	£m	£m	£m	
-	-	-	-	-	0.363	0.363	
-	-	-	-	-	0.403	0.403	
-	-	-	-	-	0.600	0.600	
-	-	-	-	-	0.267	0.267	
-	-	-	-	-	0.249	0.249	
-	-	-	-	-	0.140	0.140	
-	-	-	-	-	0.091	0.091	
-	-	-	-	-	0.077	0.077	
-	-	-	-	-	0.100	0.100	
-	-	-	-	-	0.016	0.016	
-	-	-	-	-	0.246	0.246	
-	-	-	-	-	0.616	0.616	
-	-	-	-	-	3.168	3.168	
-	-	-	-	-	4.294	4.294	
-	-	-	-	-	7.462	7.462	

Explain the purposes for which reserves are expected to be used.

Part 3

What worries board members?



Key messages

The risks and uncertainties described in the management commentary should genuinely be the principal risks and uncertainties that the board members are concerned about.

The descriptions should be sufficiently specific that users can understand why they are important to the board members.

The management commentary and annual governance statement should describe the mitigating actions to manage the impact of the principal risks and uncertainties and significant governance weaknesses. The links to accounting estimates and judgements should be clear.

Principal risks and uncertainties

43. The statutory guidance requires the management commentary to provide a description of the principal risks and uncertainties facing the IJB and how they might affect its future prospects.
44. The risks and uncertainties included in the management commentary should be limited to those considered by the IJB's board members to be material to the development, performance, position or future prospects of the IJB. They will generally be matters that the board members regularly monitor and discuss because of their likelihood or the magnitude of their potential effect on the IJB.
45. Board members should consider the full range of business risks, including both those that are financial in nature and those that are non-financial. Principal risks should be disclosed and described irrespective of how they are classified or whether they result from strategic decisions, operations, organisation or behaviour, or from external factors over which the board may have little direct control.
46. A particular issue is in respect of funding for integrated services provided in large hospitals. The relevant health board partner is required to determine an amount set aside for such large hospital services. In 2016/17, this did not operate fully as the guidance required. The failure to identify and manage the set aside budget severely hampers the IJB's ability to shift the balance of care. While some IJBs explained this in their accounting policies, no IJB made reference to this significant risk in their management commentary.

Principal risks and uncertainties will generally be those that board members regularly monitor.

Describe the business risks and uncertainties that are material and regularly monitored

Forward looking

47. The management commentary should have a forward looking orientation. Most IJBs identified trends and factors that are likely to impact on their ability to achieve their objectives in the future (see Exhibit 10). However, the disclosure of further analysis would allow users to reach a considered opinion on the IJB's position to deal with these challenges.

Exhibit 10

Future Challenges

The IJB is facing a number of challenges, risks and uncertainties in the coming years such as:

- The economy; we continue to operate in an era of unprecedented austerity with significant further savings and efficiency pressures to come. We fully recognise our partners and commissioned service providers are also facing the same challenges. Through our Fit for the Future change programme we continue to review models of service delivery to ensure we remain a sustainable partnership able to meet the needs of the communities we serve.

Specific descriptions

48. The descriptions of the principal risks and uncertainties should be specific so that users of the accounts can understand why they are material to the IJB. This might include a description of the likelihood of the risk, an indication of the circumstances under which the risk might be most relevant to the IJB, and its possible effects. This information provides insightful information that can be used in the assessment of the IJB's future prospects.
49. In our opinion, half of the boards included specific risks while the others provided only a high level generic indication of the issues and risks they face. The inclusion of generic information on its own is of limited use to stakeholders. Most IJBs disclosed as risks:
- the result of local council elections
 - EU withdrawal
 - an ageing population
 - future funding settlements.
50. While these may pose a risk, it could have been clearer what the IJB considered to be the specific risk of these developments. For example, the IJB in Exhibit 11 tailored the demographic risk to their specific circumstances.

Describing the likelihood of a risk, the circumstances under which it will be relevant and its possible effects help users understand why it is material.

Exhibit 11

- Demographic pressures are a particular challenge for East Renfrewshire as we have an increasing elderly population with a higher life expectancy than the Scottish average and a rise in children with complex needs resulting in an increase in demand for services.

Provide sufficient specific information to explain why the risks and uncertainties are material to the IJB.

Assessment of governance framework

51. IJBs are required to provide an assessment of the effectiveness of key elements of their governance framework in the annual governance statement.
52. There is a distinction between merely describing the governance framework, and providing users with an assessment of the framework's effectiveness.
53. IJBs tend to provide a description of the governance and risk management processes and procedures in place. However, in some instances the descriptions can be overly detailed and would benefit from an analysis of the outcome to identify how effective the framework is.

There is a distinction between describing the governance framework, and providing an assessment of its effectiveness.

Provide an assessment of the effectiveness of the governance framework.

Action plan to mitigate risks and uncertainties

54. An explanation of how the principal risks and uncertainties are managed or mitigated should be included in the management commentary to enable stakeholders to assess the impact on the future prospects of the IJB. Around half of IJBs provided an explanation of what the IJB was doing to manage the risks in 2016/17. The IJB at Exhibit 12 helpfully provided the information in a table.

Exhibit 12

Some of key risks identified with mitigating actions in the HSCP Board Risk Register are:

Strategic Risk	Mitigating Action
Failure to deliver efficiency savings targets and operate within allocated budgets.	On-going process of managing and reviewing the budget by the Senior Management Team. A recovery plan will be implemented to address areas of significant in-year overspend. Savings options under review in 2016/17 expected to be challenging – horizon scanning being undertaken with respect to delivery of Strategic Plan within context of both wider WDC & GGC processes.

Describe in the management commentary the mitigating actions to manage the impact of the principal risks and uncertainties.

55. A required component of the annual governance statement is an action plan showing the actions to be taken to deal with significant governance issues.
56. All failures of controls (financial or otherwise) should be considered for disclosure in the annual governance statement. In preparing the statement, the chief officer needs to take a view on whether issues are sufficiently significant to be included within the statement.
57. Our review of the annual governance statements identified variation in the number of issues covered and the level of detail provided on these issues. While most IJBs reported issues in 2016/17, six stated that they had no issues to report.
58. Action plans should set out what has to be done, by whom, and the timescale for completion. The template of accounts includes a suggested format to facilitate effective disclosure (see Exhibit 13).

Exhibit 13

	Area for Improvement and Outcome to Be Achieved	Improvement Action Agreed	Responsible Party	Completion Date
1.				
2.				

59. Over half of IJBs provided an action plan in the annual governance statement. Some of the plans would have benefitted from providing more information to allow an assessment of these actions. Exhibit 14 has two contrasting approaches.

Exhibit 14

Continuous Improvement

The following areas for improvement have been identified through the self-assessment process and Annual Internal Audit Report. Progress against these will be monitored by the Performance and Audit Committee during 2017/18:

- Develop the Integration Joint Board's local Code of Governance
- Update the Integration Joint Board's Participation and Engagement Strategy
- Develop and update the Memorandum of Understanding for Hosted Services in partnership with Angus and Perth and Kinross Integration Joint Boards
- Formalise key governance principles and precise responsibilities of the Integration Joint Board, Tayside NHS Board and Dundee City Council in relation to delegated functions
- Review and expand the Integration Joint Board's Risk Register
- Develop Scheme of Further Delegation in relation to delegated services to the Integration Joint Board
- Further strengthen Clinical, Care and Professional Governance frameworks

Although this IJB identified actions, more information would have helped users assess the adequacy.

Action Plan

Following consideration of the review of adequacy and effectiveness the following actions have been agreed to ensure continual improvement of the Integration Joint Board's governance.

	Area for Improvement and Outcome to Be Achieved	Improvement Action Agreed	Responsible Party	Completion Date
1.	An action plan to be developed and covering planned improvements to governance arrangements and presented to an monitored by the Audit Committee	Action Plan to be developed	Chief Finance Officer	September 2017 (Presentation to Audit Committee)
2.	A clear and comprehensive Scheme of Delegation is finalised and implemented without undue delay.	Scheme of Delegation to be finalised and presented to Integration Joint Board for approval.	Chief Officer	November 2016 (Approval by IJB)

This IJB set out the action it plans to take, the individual responsible, and a timeframe for completion.

Include in the plan the action identified to address the issue, a timescale for completion and a responsible officer.

Progress on prior year issues

60. It is important for the annual governance statement to follow up on any issues from previous years. Although twenty IJBs reported issues in their 2015/16 annual governance statements, only ten IJBs highlighted actions taken to address these issues in the 2016/17 statement. Exhibit 15 provides an example.

Exhibit 15

Areas for Improvement identified in 2015/16	Action undertaken 2016/17
Financial Assurance Finalisation of the 2016/17 financial assurance process including a formal offer of financial resources from NHS Lothian	At its March 2016 meeting the IJB accepted the East Lothian Council budgetary offer and an indicative offer from NHS Lothian. NHS Lothian's formal financial allocation offer for 2016/17 was received on 14 June 2016. The final financial assurance for 2016/17 was presented to the IJB at its August meeting. The IJB agreed to the proposed budget.
Three year financial plan The financial plan that underpins the IJB's Strategic Plan should cover a three year period.	Although NHS Lothian have only made an offer for one year, East Lothian Council have made a three year indicative position. The 2017/18 budget is also a one year settlement however this is now being addressed in 2017/18 as part of the future budget setting process.

This IJB reported brought forward issues and actions taken to address them in 2016/17.

Continue to bring forward significant issues identified in previous years until these have been completely addressed.

Critical judgements and estimation uncertainty

61. The accounting code requires disclosure in the notes to the financial statements of
- critical judgements made in the process of applying the IJB's accounting policies that have the most significant effect on the amounts recognised in the financial statements
 - information about the assumptions made about the future, and other major sources of estimation uncertainty, that have a significant risk of resulting in material adjustments within the next financial year.
62. The disclosures should enable the user to determine the reasonableness of these judgements and estimates. Most IJBs disclosed in the notes the critical judgements and estimations they had used in the preparation of their annual accounts. The judgements and estimations disclosed by these IJBs included:
- an assessment that there were no provisions or contingent liabilities
 - the amount set aside for large hospital services being based on historical figures
 - the apportionment of costs where an IJB 'hosts' speciality services for the whole health board area on behalf of all the IJBs in that area.
63. Although eight IJBs disclosed the judgements around their 'hosted' services, it was not always clear from these disclosures whether the arrangement had been judged to be an agency arrangement (this is discussed further in Part 9). Exhibit 16 provides an example of a clear explanation.

Exhibit 16

NOTE 3: CRITICAL JUDGEMENTS AND ESTIMATION UNCERTAINTY

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

- On behalf of all IJBs within the NHS Ayrshire & Arran area, the IJB acts as the lead partner for Primary Care and Out of Hours services. It commissions services on behalf of the three Ayrshire IJBs and reclaims the costs involved. This arrangement is treated as an agency arrangement. The approved Integration Scheme sets out that in the event of lead partnership overspending, a recovery plan requires agreement of the three Ayrshire Integration Joint Boards. Failure to reach agreement will require interim additional funding contributions in proportion to service usage, pending final agreement of the recovery plan.

This IJB provided a good explanation of their judgements.

64. However, IJBs did not generally highlight these judgements and estimations in the management commentary. In our view, users would find additional explanations in the management commentary to be helpful.

Discuss and highlight in the management commentary any linkages with the disclosures of judgements and estimates in the notes.

65. Eleven IJBs did not disclose any critical judgements made when preparing the accounts (see Exhibit 17).

Exhibit 17

Note 11: Critical Judgements and Estimation Uncertainty

There are no material judgements made in these Financial Statements.

Provide detail on specific, material judgements made.

Part 4

Consistency



Key messages

Highlighted or adjusted figures, key performance indicators and other measures referred to in the management commentary should be clearly reconciled to the relevant amounts in the financial statements.

Any adjustments to the figures in the management commentary should be clearly explained, together with the reasons why they are being made.

Adjusted measures

66. Where a line item from the financial statements, or a commonly used KPI, has been adjusted for inclusion in the management commentary, the term used for that adjusted measure should be clear and, where practicable, a reconciliation to an appropriate financial statement line item and explanation of any material adjustments should be provided.
67. Exhibit 18 provides an example.

Exhibit 18

The net cost of provision of services highlighted in the Comprehensive Income and Expenditure within the Financial Statements at Section 5 is £210.765m for the year. The preceding table highlights net expenditure of £218.755m for the year. The following table highlights that the £7.990m variance is represented by the following:

68. However, it was not always clear to users how figures disclosed in the management commentary related to amounts in the financial statements.

Provide clear explanations and reconciliations for adjusted amounts

Part 5

Cut the clutter



Key messages

Important messages, policies and transactions should be highlighted and supported with relevant context and not obscured by immaterial detail.

Cross-referencing and signposting should be used effectively, and repetition avoided.

Comprehensive and concise

69. There is a significant drive within the accounting profession to remove clutter and streamline the information presented in the annual accounts. Clutter is immaterial disclosures in the annual accounts that inhibit the ability of users to identify and understand relevant information.
70. The management commentary is required to be comprehensive, but it is also required to be concise. There does not have to be a tension between these two requirements.
71. Comprehensiveness reflects the breadth of information that should be included rather than the depth of information. The management commentary does not need to cover all possible matters in detail to be considered comprehensive. It should include the information that is necessary for an understanding of the development, performance, position and future prospects of the IJB. There is a risk that management commentaries include too much unnecessary information leading to the main messages being lost.
72. Conciseness is achieved through the efficient communication of all material information. IJBs should not confuse conciseness with excessive brevity in the level and type of information provided. There are risks that management commentaries are overly brief and so do not include all the necessary information.

Clutter is immaterial disclosures that inhibit the ability to identify and understand relevant information.

Include the necessary breadth of information in a concise way.

Relevance of disclosures

73. Financial reporting is not an end in itself and the information to be included in the annual accounts should be determined by the needs of users. An IJB should not include information in the annual accounts that is not relevant to its circumstances.
74. While the accounts template can be a useful tool in providing a comprehensive set of possible disclosures required by accounting requirements, not all disclosures are relevant to an individual IJB.

Relevance is a fundamental qualitative characteristic of financial information.

75. The indiscriminate use of a template in the production of accounts can result in a cluttered and confusing document. IJBs should ensure that they tailor the template to their own circumstances.
76. A common example is in respect of accounting policies. The accounting code requires IJBs to disclose their significant accounting policies. The template included a number of standard accounting policies which are likely to apply generally to most IJBs. Each IJB should have considered which of these policies were not only applicable, but significant, to the 2016/17 accounts.
77. The review identified that most IJBs included at least one accounting policy that was not relevant to their 2016/17 accounts. For example, most IJBs disclosed an accounting policy for provisions and contingent liabilities where none were recognised or disclosed.

Ensure disclosures are relevant to the IJB.

Materiality of disclosures

78. Only information that is material to users of the accounts should be included in the annual accounts. Materiality is an aspect of relevance that is specific to each IJB based on the nature or magnitude of the effect of the information, judged in the particular circumstances.
79. This requires the IJB's chief finance officer to apply judgement based on their assessment of the relative importance of the matter to the IJB's development, performance, position or future prospects.
80. Requirements of the accounting code in respect of materiality include the following
- Paragraph 2.1.2.11 explains that information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific IJB.
 - Paragraph 3.4.2.27 states that an IJB need not provide a specific required disclosure if the information resulting from that disclosure is not material. This is the case even if the accounting code contains a list of specific requirements or describes them as minimum requirements.
81. Immaterial information should be excluded as it can obscure the key messages and impair understandability. For example, it is questionable whether the information in the Exhibit 19 example is material to most users.

Materiality is an entity-specific aspect of relevance.

Exhibit 19

The table below shows the movements on the General Fund balance, analysed between those elements earmarked for specific planned future expenditure, and the amount held as a general contingency.

31 March 2016 £'000		Transfers In £'000	Transfers Out £'000	31 March 2017 £'000
-	Earmarked: Integration & Change	-	(9)	(9)
-	General Fund	-	(9)	(9)

Use judgement to assess the relative importance of relevant information.

Nil disclosures in the financial statements

- 82.** The principle of not disclosing immaterial information extends to financial statements when there is nothing to report. For example, IJBs did not include a statement of cash flow in their annual accounts as they had no movements in cash or cash equivalents during the year.
- 83.** Where an IJB did not have any reserve balances at the start or end of the year (which would be the case if it did not retain any underspend), a movement in reserve statement would not be required as it clearly would not contain material information. Most IJBs had some movements in reserve balances, but ten did not. However, three IJBs included a movement in reserves statement with no figures in it (see exhibit 20 as an example), and a further six included a prior year comparative column with all zeros. Only one IJB omitted the movement in reserves statement altogether.

Exhibit 20

Movement in Reserves Statement

This statement shows the movement in the year on the OIJB's reserves. The movements which arise due to statutory adjustments which affect the General Fund balance are separately identified from the movements due to accounting practices.

Movements in Reserves During 2016 / 2017	General Fund Balance	Unusable Reserves: Employee Statutory Adjustment Account	Total Reserves
	£000	£000	£000
Opening Balance at 31 March 2016	0	0	0
Total Comprehensive Income and Expenditure	0	0	0
Adjustments between accounting basis and funding basis under regulations(*)			
Increase or Decrease in 2015 / 2016	0	0	0
Closing Balance at 31 March 2017	0	0	0

Movements in Reserves During 2015 / 2016	General Fund Balance	Unusable Reserves: Employee Statutory Adjustment Account	Total Reserves
	£000	£000	£000
Opening Balance at 31 March 2015	0	0	0
Total Comprehensive Income and Expenditure	0	0	0
Adjustments between accounting basis and funding basis under regulations (*)			
Increase or Decrease in 2015 / 2016	0	0	0
Closing Balance at 31 March 2016	0	0	0

* The only adjustment, in both years, between the accounting basis and funding basis under regulations is the deferral of charge to the General Fund for the

A statement with rows and columns of zeroes is clutter and serves no purpose.

- 84.** In a similar vein, three IJBs included a balance sheet when there were no balances to disclose, and ten IJBs disclosed an expenditure and funding analysis where there were no statutory adjustments made.

Omit financial statements where there is a nothing to report.

Nil disclosures in the remuneration report

85. Disclosing rows and columns of zeroes was a particular issue in the remuneration report. For example, the accounts template includes a table for disclosing staff earning over £50,000 in pay bands as required by the accounts regulations. Two IJBs included a table which comprised of rows and columns of zeroes (see exhibit 21 as an example).

Exhibit 21

Disclosure by Pay Bands

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

Number of Employees in Band 2015/16	Remuneration Band	Number of Employees in Band 2016/17
0	£50,000- £54,999	0
0	£55,000-£59,999	0
0	£60,000- £65,000	0

The IJBs could have simply stated that there were no staff paid over £50,000.

86. Where an IJB has employees earning over £50,000, and the disclosure is therefore required, irrelevant rows and columns can be omitted. The IJBs in Exhibit 22 took two different approaches.

Exhibit 22

Disclosure by Pay Bands

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

Number of Employees in Band 2015/16	Remuneration Band	Number of Employees in Band 2016/17
0	£65,000 - £69,999	1
0	£70,000 - £74,999	0
0	£75,000 - £79,999	0
0	£80,000 - £84,999	0
0	£85,000 - £89,999	0
0	£90,000 - £94,999	0
0	£95,000 - £99,999	1
0	Total	2

Including irrelevant rows and columns causes clutter.

Disclosure by Pay Bands

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

Number of Employees In Band 2015/2016	Remuneration Band	Number of Employees in Band 2016/2017
1	£85,000 - £89,999	1

Removing irrelevant rows and columns reduces clutter.

87. The example in Exhibit 23 was common to a number of IJBs. However, the narrative disclosure at the bottom of the table clearly explains the arrangement, making the taxable expenses columns unnecessary.

Exhibit 23

Taxable Expenses 2015/16 £	Name	Post(s) Held	Nominated By	Taxable Expenses 2016/17 £
0	Councillor Joe XXX	IJB Chair (retired 31/03/17)	Council	0
0	Ross XXX	IJB Vice Chair (until 01/09/16)	Board	0
0	Simon XXX	IJB Vice Chair (from 01/09/16) Audit Committee Chair (from 29/09/16)	Board	0
0	Councillor Jim XXX	IJB Member (from 29/09/16) Audit Committee Vice Chair (from 29/09/16)	Council	0
0	Alan XXX	IJB Member (from 01/09/16) Audit Committee Member	Board	0
0	Councillor XXX	IJB Member	Council	0
0	Dr Donald XXX	IJB Member	GG&C	0
0	Dorothy XXX	IJB Member (from 01/09/16)	GG&C	0
0	Councillor Stephen XXX	IJB Member (until 29/09/16) Audit Committee Vice Chair (until 29/09/16)	Council	0
0	Councillor Ciano XXX	IJB Member Audit Committee Member	Council	0

There were no IJB specific expenses recorded for voting members of the IJB during 2016/17. Any expenses claimed by voting members are paid through the relevant IJB partner organisation.

88. Some IJBs omitted irrelevant or immaterial disclosures altogether, leaving the user to reasonably assume that the information would not be material. However, IJBs may consider it more appropriate to make an explicit nil disclosure rather than omit a required disclosure entirely.
89. Where nil disclosures are made, they should still be clear and concise. For example, Exhibit 24 contains two contrasting approaches to the nil disclosure of the number of agreed exit packages.

Exhibit 24

Exit Packages

There is a requirement to disclose details of all staff Exit Packages agreed in the year. An Exit Package is the value of all termination benefits which include redundancy costs, pension contributions in respect of added years and any ex gratia and other departure costs. The Board has not agreed any Exit Packages in 2015/16 or 2016/17.

This wording is unnecessarily lengthy.

Exit Packages

There were no exit packages payable during the financial year.

This example is more concise and clearer.

Reporting insignificant governance issues

90. IJBs are required to report only significant issues in their annual governance statement. Board members should consider the following indicators in deciding whether a governance issue is significant:

- The issue seriously prejudices or prevents achievement of a key objective.
- The issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business.
- It has a material impact on the financial statements.
- The audit committee, or equivalent, advises it should be considered significant for this purpose.
- The Head of Internal Audit reports on it as being significant.
- The issue, or its impact, has attracted significant public interest, or has seriously damaged the reputation of the IJB.

Only significant governance issues should be reported.

91. In some cases, matters that appeared insignificant were reported. This can have the effect of minimising the impact of significant issues which can be obscured in the detail. Reported issues identified during our review that did not appear to meet the above indicators included:

- developing a website for the IJB
- implementing a document retention policy
- preparing an information sharing agreement.

Use judgement to assess the significance of governance issues.

Use of cross-referencing and signposting

92. Good linkages between related disclosures is essential for the annual accounts to communicate a holistic story. Insufficient linkage between different components of the annual accounts can make it appear disjointed. Cross-referencing and signposting are useful techniques that can assist IJBs in highlighting linkages:
- An item of required information set out in one component of the annual accounts can be included in another by cross-reference. This can lead to clearer communication, while ensuring disclosure requirements are met.
 - Signposting can be used to direct users to complementary information that is not required to meet the disclosure requirements for the particular component of the annual accounts. Signposted information can be located elsewhere in the annual accounts (e.g. an appendix) or outside the annual accounts (e.g. on a website).
93. Most IJBs made effective use of signposting to refer the user to further documents and information available. For example most IJBs provided a link to their integration scheme (see Exhibit 25).

The appropriate use of cross-referencing to required information and signposting to complementary information can highlight linkages.

Exhibit 25

The Integration Joint Board is a legal entity in its own right, created by Parliamentary Order following ministerial approval of an Integration Scheme. The Orkney Integration Joint Board (OIJB) was established as a body corporate by order of Scottish Ministers with effect from 6 February 2016. This can be found at <http://www.legislation.gov.uk/ssi/2016/2/contents/made>.

The integration scheme is a legally binding contract between Orkney Islands Council and NHS Orkney. It sets out the make-up of the Integration Authority and how it will work. This can be found at [http://www.orkney.gov.uk/Files/OHAC/Integration Scheme Accessible Version.pdf](http://www.orkney.gov.uk/Files/OHAC/Integration%20Scheme%20Accessible%20Version.pdf).

94. However, where hyperlinks are included, IJBs should ensure that the version of the annual accounts published on their website allows the user to follow these links. Most of the links in the 2016/17 accounts appearing on websites did not work for external users.

Use signposting to allow the user to access additional and contextual information.

95. There may be scope for greater use of cross-referencing, which may allow IJBs to remove some detail from their management commentary, improve the narrative flow and reduce duplication.

Use cross-referencing where it results in more effective communication.

Part 6

Clarity



Key messages

The language used should be precise and explain complex accounting and reporting issues clearly.

Jargon and 'boiler-plate' disclosures should be avoided.

Plain language

96. The language used to support and explain the disclosures in the annual accounts is fundamental to the users' understanding of the information presented. The management commentary should therefore be written in plain language.

Use of jargon

97. The excessive use of technical language (i.e. jargon) should be avoided where possible. Where the use of sector-specific terms is necessary, they should be clearly defined and used consistently. Some IJBs included a glossary in the accounts which users find helpful (see Exhibit 26).

Exhibit 26

SECTION 8: GLOSSARY OF TERMS

While the terminology used in this report is intended to be self-explanatory, it may be useful to provide additional definition and interpretation of the terms used.

Accounting Period

The period of time covered by the Accounts normally a period of twelve months commencing on 1 April each year. The end of the accounting period is the Balance Sheet date.

Accruals

The concept that income and expenditure are recognised as they are earned or incurred not as money is received or paid.

98. In the example in Exhibit 27, jargon is used which is not clearly explained.

Exhibit 27

The IJB's Operations for the Year

Operationally, work during 2016/17 had a strong focus on the delivery of the IJB's Transformation Programme in support of integration and the Strategic Plan. The Transformation Programme consists of a range of activities across the entirety of the business of the IJB. The Transformation Programme is monitored via an Integration Transformation Board, chaired by the Chief Officer, the aims of which are to:

In order to achieve this we must continue to identify and implement more innovative ways to deliver customer focused services cost effectively, by driving service improvement and organisational change within the Partnership through a structured approach to managing change, optimising the use of change and improvement competencies and developing and sharing best practice throughout the Partnership.

It is recognised that if there are no changes to the way that services are planned and delivered with partners across all sectors, current service provision will not be sufficient to meet the future health and social care needs of the population. We must therefore embed new ways of working and seek to focus resources away from expensive bed based models of care into community based services. We need to critically appraise and challenge our current models of service delivery to ensure our combined resources are focused on areas of greatest need delivering the best outcomes to our service users and patients, and that crucially we harness the capacity of local communities to support the wider preventative, health and wellbeing outcomes.

Jargon should be kept to a minimum

Explanations should be clear, concise and written in plain language

99. For example, it may be unclear to most users of the accounts what is meant by 'transformational change'. While those involved in health and social integration may be familiar with such phrases, it is likely that most users may not be. A brief explanation in plain language would therefore have helped the user understand the point being made.

Avoid jargon or, if not possible, provide explanations in plain language that users can understand.

Boiler-plate wording

100. Boiler-plate wording refers to generic disclosure which could apply to any body that gives no additional useful information to users of the accounts.
101. The accounts template provided a standard wording for some common accounting policies and notes to the accounts. Any IJB using the template should have tailored the standard wording to reflect its own circumstances to avoid using boiler-plate wording. However, the disclosures were not always tailored appropriately.
102. For example, the template included wording for IJBs to use as the basis for a disclosure on the face of the comprehensive income and expenditure statement (CIES) on the need for statutory adjustments. Some IJBs did not make any statutory adjustments but did not tailor the disclosure accordingly (see Exhibit 28).

Exhibit 28

Comprehensive Income and Expenditure Statement

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

-
103. Other IJBs that did not make any statutory adjustments tailored the template disclosure to remove the reference and provided a helpful explanation. Exhibit 29 provides an example.

Exhibit 29

There are no statutory or presentation adjustments which affect the IJBs application of the funding received from partners. The movement in the General Fund balance is therefore solely due to the transactions shown in the Comprehensive Income and Expenditure Statement. Consequently an Expenditure and Funding Analysis is not shown in these annual accounts.

Tailor standard wording to address the IJB's specific circumstances.

Part 7

Summarise



Key messages

Items should be reported at an appropriate level of aggregation.

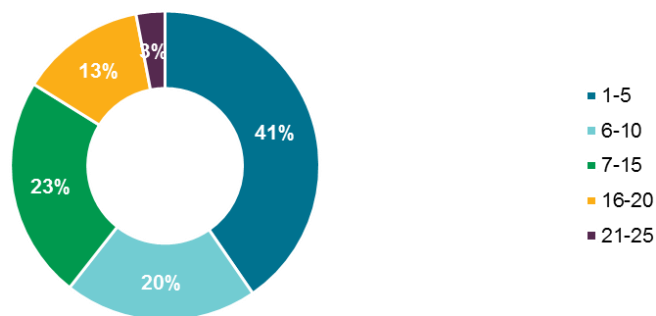
Tables should be supported by, and consistent with, the accompanying narrative.

Aggregation

104. The accounting code requires an IJB to present operating segments on the face of the CIES on the basis of its organisational structure. All IJBs included a segmental analysis in the 2016/17 CIES. However, the variation in the number of segments disclosed by IJBs is striking, and is summarised in the following exhibit.

Exhibit 30

Number of segments per IJB



The number of segments reported ranged from two to 23, with an average of nine.

105. Four IJBs reported two operating segments; one for health and one for social care. A further four IJBs reported three segments with the addition of corporate services. While this may meet the reporting requirements (assuming it reflects the way the IJB reports internally to the board), it does raise some questions around whether this level of analysis is sufficient to allow the board to meet its objectives around redistribution of resources.

106. The highest number of operating segments was 23 and six IJBs operated fifteen or more segments. IJBs should consider whether this is excessive, particularly in light of the amendment to the 2018/19 accounting code which indicates that ten is a practical limit.

107. Not all operating segments required to be reported, and aggregation can be used to keep the total to a proportionate and reasonable number.

Report segments at an appropriate level of aggregation.

Infographics

- 108.** The method of presentation can significantly affect the understandability of information in the management commentary. The most appropriate method of presentation will depend on the nature of the information but may include tabular, graphical or pictorial methods as well as narrative text.
- 109.** The use of innovative presentation techniques such as infographics can emphasise a point and improve the disclosure. Information that can helpfully be presented graphically includes:
- geographic and demographic information
 - performance against targets and financial information
 - organisational structures and governance arrangements.
- 110.** In most cases tables and other infographics should be supported by accompanying narrative. It is important that the narrative is consistent with the message conveyed by the infographic. In the example at Exhibit 20 in Part 5, the narrative included above and below the statement suggests that there had been movement in the reserves, whereas the statement showed no movements. Conflicting messages can confuse users and obscure important information elsewhere.
- 111.** Although not widespread, a few IJBs made use of innovative presentation (such as the examples in Exhibits 31 and 32) in their 2016/17 management commentaries.




Exhibit 31

Vision and Values (2016-2019)



Exhibit 32

The IJB's 2016/17 Performance against the 23 National Indicators is shown in the table below:

National Indicator		HSCP	Scottish Average	Comparison
1	Percentage of adults able to look after their health very well or quite well	90.00%	93.85%	
2	Percentage of adults supported at home who agreed that they are supported to live as independently as possible	88.32%	83.61%	
3	Percentage of adults supported at home who agreed that they had a say in how their help, care, or support was provided	85.40%	78.82%	

This shows an example of making good use of infographics in presenting performance information.

112. Exhibit 32 shows how IJBs can make good use of graphics in presenting performance information.

113. It also sets out a good example of how an IJB has reported its performance against the Scottish average. The IJB aligned their client survey questions to the national outcomes to provide an innovative way of highlighting their performance against these outcomes. The IJB went on to provide some explanation of performance against these national outcomes.

Consider how the use of innovative presentation such as tables and graphics can more clearly convey a message than narrative alone.

Case studies

114. The use of case studies can be an effective way to engage the user and to highlight performance developments and action to address issues.

115. Exhibit 33 provides an example of an IJB making effective use of case studies to give the user an insight into the achievements in the year and performance against the targets.

Exhibit 33

The cottages were converted, fully furnished and are already accommodating elderly patients who have been discharged from hospital. A wide range of health care professionals are fully integrated into the process to allow for a period of rehabilitation before the patients are able to make the transition and regain their independence. The principle here again is to support individuals' confidence and independence by accommodating in a non-clinical environment. There is also the added value of privacy and the ability for families to remain involved. The cottages can accommodate up to 5 service users at any one time.



The terraced cottages in Victoria Road provide a homely setting in which to deliver intense rehabilitation which will facilitate hospital discharge and hospital admission avoiding additional pressure being placed on community hospitals

Consider using case studies or examples where this can help provide the user with a better insight.

Part 8

Explain change



Key messages

Significant changes from the prior period, whether matters of policy or presentation, should be properly explained.

Explaining changes from comparatives

- 116.** The financial statements are required to provide comparative information for the previous year to allow the user to identify significant changes in the performance and position of the IJB at the year end. Significant changes between years should be flagged and up explained in the notes.
- 117.** In most cases 2016/17 was the first full year of IJBs delivering services and this had a significant impact on the income and expenditure reported in the accounts compared with the 2015/16 part year results. Most IJBs explained this change clearly as in the example at Exhibit 34.

Exhibit 34

(vii) Significant changes compared with the prior year

The IJB was established on 6 February 2016. Integrated delivery of health and care services did not commence until 1 April 2016. Consequently, the 2016/17 financial year is the first fully operational financial year for the IJB and the figures within the annual accounts reflect this.

Users find an explanation on changes from comparative information helpful.

- 118.** However, eight IJBs did not explain the reason for the change from 2015/16.

Explaining changes in presentation

- 119.** Five IJBs restated the comparative figures for 2015/16. Four provided an explanation for the restatement in the 2016/17 accounts. One of the four went further and provided a reconciliation (see Exhibit 35).

Exhibit 35

The 2015/16 Comprehensive Income and Expenditure figures have been restated to reflect the IJB's operational structure, as required for the 2016/17 financial statements.

The effect of these adjustments on the Comprehensive Income and Expenditure Accounts (CIES) is shown in the tables below:

Prior Year Adjustment to Comprehensive Income and Expenditure Account (CIES)	£000
Services commissioned by IJB (per 2015/16 Accounts)	16,320
Proportionate adjustment for underspend/overspend by the Parties against delegated budgets	(321)
Restated Cost of Services per CIES 2016/17	15,999

Prior Year Adjustment to Balance Sheet	Short Term Debtors £000	Short Term Creditors £000
Year-end balances per 2015/16 Accounts	16,320	(16,320)
Proportionate adjustment to year-end accruals in respect of contributions made from the Parties	(321)	321
As Restated at 31 March 2016	15,999	(15,999)

The contributions made to and from the IJB from the Parties are recorded as Short Term Debtors and Creditors, given the IJB does not have its own bank account for the physical transfer of money to take place. The comparative figures in the Balance Sheet have also been amended to reflect the prior year adjustment required as follows:

This IJB provided a reconciliation of the restatement.

Significant changes from the previous year should be clearly explained.

Explaining changes in policy and other key matters

120. Significant changes from the prior year in policy and other key matters should be adequately explained so that users of the accounts can assess the impact on the development, position, performance, or future prospects of the IJB.
121. For example, significant changes in principal risks such as a change in likelihood, probable timing or possible effect, or the inclusion of new risks, should be highlighted and explained.
122. As IJBs develop, different risks will emerge and they may need to change their policy or approach to manage these risks. IJBs should clearly explain these changes as they emerge.

Explain key changes in policy and other key matters.

Part 9

True and fair



Key messages

The spirit as well as the letter of proper accounting practices should be followed.

Ensuring true and fair

- 124.** The true and fair requirement has been fundamental to accounting in the UK for many years. In the vast majority of cases a true and fair view will be achieved by compliance with proper accounting practices and by additional disclosures to fully explain an issue.
- 125.** However, the preparation of financial statements cannot be reduced to mechanistically following accounting standards to the letter. Objective professional judgement must be applied at all stages of preparation to ensure that financial statements give a true and fair view. Not only the letter, but also the spirit, of standards should be followed.
- 126.** Disagreement with a particular standard does not, on its own, provide grounds for departing from it. Where the accounting standards clearly address an issue, but the requirements are insufficient to fully explain it, the solution is normally additional disclosure.
- 127.** In order to discharge properly their responsibilities, IJB chief finance officers should stand back as they finalise the financial statements and consider whether, viewed as a whole, the financial statements give a true and fair view.

Preparing financial statements that give a true and fair view cannot be reduced to mechanistically following accounting standards.

Stand back and consider whether, viewed as a whole, the financial statements give a true and fair view.

Agency or principal

- 128.** IJBs act as principal for all integrated services delegated to them. This means that in resource terms funding contributions received by the IJB from the constituent authorities are distinct from the commissioning expenditure incurred by the IJB, which is also distinct from the subsequent service delivery expenditure incurred by constituent authorities.
- 129.** All IJBs correctly accounted for and presented these transactions in 2016/17.
- 130.** However, IJBs which 'host' speciality services for the whole health board area may be acting as agents for these services. The integration scheme should set out how this operates in practice.

- 131.** Where the amount recharged to the other IJBs is the same as the costs incurred, the host IJB may be acting as an agent on behalf of all the IJBs in the area. Where an IJB is acting as an agent, costs and recharges should not be included within the CIES.
- 132.** Conversely the hosting IJBs are likely to be acting as a principal in their own right where they can retain any under or overspend for the whole area. Expenditure and income should therefore be included in the CIES
- 133.** Our review identified that some IJBs appeared to be acting as agents but included the costs and recharges in their 2017/18 CIES. They then included an adjustments line to eliminate these costs and recharges to arrive at the costs of services to the IJB. This presentation is clumsy, obscures the distinction between agent and principal, and is potentially confusing for users.

Account for hosted services as agent or principal as determined by the integration scheme.

Disclosing related parties

- 134.** The constituent authorities are expected to be related parties to the IJB. Guidance from the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) advised IJBs to disclose:
- contributions received from each constituent authority
 - commissioning expenditure provided to each constituent authority
 - arrangements for support services provided by constituent authorities
 - amounts incurred by the IJB for the provision of key management personnel. This is expected to include non-voting board members (e.g. the IJB chief officer, chief social work officer, and chief financial officer) where the IJB is charged by the constituent authorities for their services.
- 135.** The best disclosures in 2016/17 covered all of the bullet points above and provided some explanation of the key management personnel involved and the support services received.
- 136.** Exhibit 36 provides an example.

Exhibit 36

2015/2016 £m	Transactions with NHS Lanarkshire	2016/2017 £m
0.022	Funding Contributions received from NHS Lanarkshire	(356.813)
-	Service Income received from NHS Lanarkshire	-
-	Expenditure on Services Provided by NHS Lanarkshire	311.391
-	Key Management Personnel: Non-Voting Board Members	0.063
0.022	Support Services	0.021
-	Net Transactions with NHS Lanarkshire	(45.338)

Key Management Personnel: The non-voting Board members are not directly employed by NHS Lanarkshire however a contribution of 50% of the cost of the Chief Officer and the Chief Financial Officer is made by NHS Lanarkshire. This payment is included in the Corporate Services cost in the Comprehensive Income and Expenditure Statement. Details of the remuneration of these post holders is included in the Remuneration Report.

NHS Lanarkshire provide a range of support services for the IJB including finance services, personnel services, planning services, audit services, payroll services and creditor services. There is no charge from NHS Lanarkshire to the IJB for these support services.

- 137.** Seven IJBs did not provide any disclosure of key management personnel and a further six did not provide any explanation of the arrangements for the provision of support services.

Provide information on related party relationships, transactions and balances to enable users to understand their nature and actual or potential effects on the annual accounts.

Disclosing services in kind

- 138.** Some support services are provided by constituent authorities to IJBs free of charge (i.e. service in kind). IJBs may recognise the value of services in kind received as expenditure and income, but there is no requirement to do so. However, the LASAAC guidance recommends that the nature and extent of the arrangement is disclosed as a note in the IJB accounts.
- 139.** Most IJBs included some explanation of the services in kind provided within the related party disclosure (see Exhibit 36 above). Eight of the other IJBs included an explanation in their accounting policies or in another note. However, five IJBs included no disclosure around services in kind.

Provide an explanation of services in kind provided by constituent authorities.

Other areas

- 140.** Although this good practice review was not designed to find non-compliance with proper accounting practices, a few individual instances were identified. The relevant auditors have been advised so they can take the necessary action. The issues included:
- the failure to sign the balance sheet

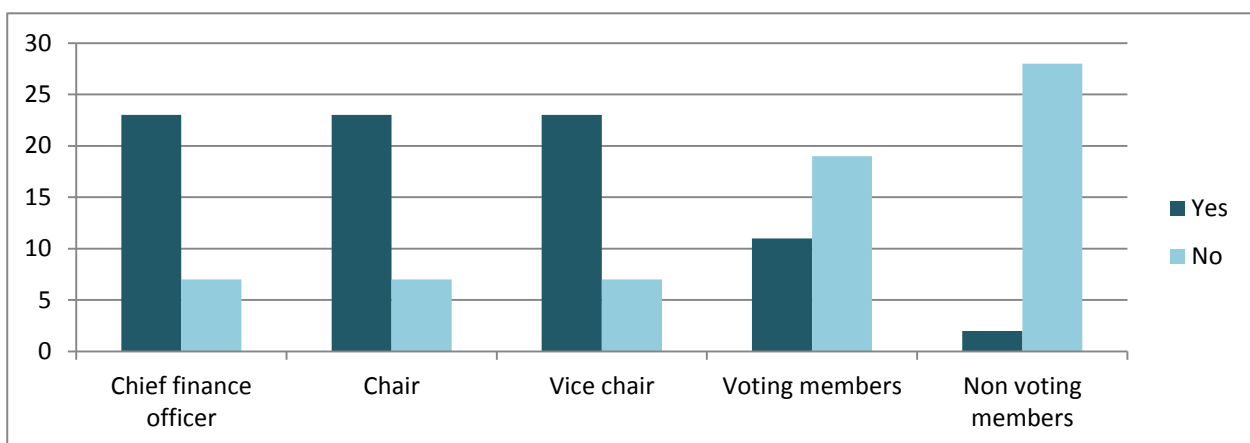
- disclosing an incorrect authorised for issue date
- referring to exceptional items (which is a concept no longer recognised by the accounting code)
- having an inappropriate accounting policy which resulted in all income and expenditure during the year being recognised as debtors and creditors in the balance sheet at the year end.

Remuneration disclosures

- 141.** The principle of following the spirit of proper accounting practices, and not just the letter, also applies to the remuneration report.
- 142.** The accounts regulations define the 'relevant persons' who should be included in the remuneration report. The LASAAC guidance provided an interpretation of this guidance for IJBs. It concludes that the chair, vice-chair, and chief officer meet the definition for 'relevant person'.
- 143.** However, a 'relevant person' includes any senior employee holding office with an IJB. The phrase 'holding office' means that direct employment by the IJB is not a prerequisite. Although not regarded as an employee of the IJB, the chief finance officer is likely to meet the definition of a 'relevant person' by virtue of holding an office with the IJB. This may also apply to other officers and staff.
- 144.** All the IJBs treated their chief officer as a 'relevant person' in 2016/17 and made the full disclosures. However, the treatment was less consistent for other post holders. Exhibit 37 shows the number of IJBs disclosing information for each category of post holder. The chief finance officer was included in twenty three IJB remuneration reports and three IJBs made disclosures for other non voting members.

Exhibit 37

Categories of post holder disclosed in the remuneration report



Consider whether post-holders meet the definition of a relevant person for the remuneration report.

Appendix 1

Improvement checklist

The following checklist is intended to assist IJBs improve the quality of their annual accounts.



Page no.	Improvement action	Yes	No
9-10	<p>Is the narrative in the management commentary and annual governance statement consistent with the accounting information in the financial statements?</p> <p>Does the management commentary explain significant points in the financial statements?</p>		
11-15	<p>Does the management commentary give a clear and balanced account of how the funding was used?</p> <ul style="list-style-type: none"> • Have you provided a balanced summary in the management commentary of the progress being made? <p>Have explanations of the IJB's business model been provided?</p> <ul style="list-style-type: none"> • Do descriptions give an insight that is specific to the IJB? • Have the IJB's objectives been included in the description of the strategy? <p>Are the salient features of the IJB's performance and position explained in a balanced way?</p> <ul style="list-style-type: none"> • Have you provided explanations of performance against each indicator and outline any action required? • Have you explained the purposes for which reserves are expected to be used? 		
16-22	<p>Are the risks and uncertainties described in the management commentary genuinely the principal risks and uncertainties that the board members are concerned about?</p> <ul style="list-style-type: none"> • Have you described the business risks and uncertainties that are material and regularly monitored? <p>Are the descriptions sufficiently specific so that users can understand why they are important to the board members?</p> <ul style="list-style-type: none"> • Have you provided sufficient specific information to explain why the risks and uncertainties are material to the IJB? • Have you provided an assessment of the effectiveness of the governance framework? 		



**Page
no.**

Improvement action

Yes

No

Do the management commentary and annual governance statement describe the mitigating actions to manage the impact of the principal risks and uncertainties and significant governance weaknesses?

- Have you included a timescale and responsible officer in an action plan to address significant issues?
- Have you brought forward significant issues?

Are there clear links to accounting estimates and judgements?

- Have you discussed and highlighted in the management commentary any linkages with the disclosures of judgements and estimates in the notes?
 - Have you provided sufficient detail on specific material judgements made?
-

23

Have highlighted or adjusted figures, key performance indicators referred to in the management commentary been clearly reconciled to the relevant amounts in the accounts?

Are adjustments to the figures in the management commentary clearly explained, together with the reasons why they are being made?

24-30

Are important messages, policies and transactions highlighted and supported with relevant context and not obscured by immaterial detail?

- Have you included the necessary breadth of information in a concise way?
- Have you ensured that disclosures are relevant to the IJB?
- Have you assessed the relative importance of relevant information?
- Have you omitted financial statements where there is a nothing to report?
- Have you assessed the significance of governance issues?

Has cross-referencing and signposting been used effectively, and repetition avoided?

31-33

Is the language used precise and does it explain complex accounting and reporting issues clearly?

Do you avoid jargon and boiler plate disclosures?

- Have you provided explanations in plain language that users can understand?
 - Have you tailored standard wording to address the IJB's specific circumstances?
-



**Page
no.**

Improvement action

Yes

No

34-37	<p>Are items reported at an appropriate level of aggregation? Are tables supported by, and consistent with, the accompanying narrative?</p> <ul style="list-style-type: none"> • Have you used innovative presentation such as tables and graphics where it more clearly conveys the message? • Have you considered using case studies or examples to help provide the user with a better insight? 		
38-39	<p>Are significant changes from the prior period, whether matters of policy or presentation, been properly explained?</p>		
40-43	<p>Has the spirit as well as the letter of proper accounting practices been followed?</p> <ul style="list-style-type: none"> • Have you stood back and considered whether, viewed as a whole, the financial statements give a true and fair view? • Have you accounted for hosted services as agent or principal as determined by the integration scheme? • Have you provided information on related party relationships, transactions and balances to enable users to understand their nature and actual or potential effects on the annual accounts? • Have you provided an explanation of services in kind provided by constituent authorities? • Have you considered whether post-holders meet the definition of a relevant person for the remuneration report? 		

Good practice note on improving the quality of local authority annual accounts – integration joint boards

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