



# Midlothian Integration Joint Board

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2019**

**18 September 2019**



# Contents

Section	Auditor Responsibility	Page
<b>Executive Summary</b>	Summarise the key conclusions from our audit	<b>03</b>
<b>Financial statements audit</b>	Provide an opinion on audited bodies' financial statements Review and report on, as appropriate, other information such as the annual governance statement, management commentary and remuneration report	<b>06</b>
<b>Wider scope dimensions</b>	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"><li>▶ financial position and arrangements for securing financial sustainability</li><li>▶ suitability and effectiveness of corporate governance arrangements</li><li>▶ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets</li></ul>	<b>10</b>
<b>Appendices</b>	Undertake statutory duties, and comply with professional engagement and ethical standards:  Appendix A: audited body's responsibilities Appendix B: required auditor communications Appendix C: independence and audit quality Appendix D: action plan Appendix E: follow up of prior year recommendations	<b>23</b>

## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Integration Joint Board (the IJB) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# Executive Summary: Key Conclusions from our 2018/19 audit

<p><b>Financial statements: Audit Opinion</b></p>	<p>We have concluded our audit of the IJB's financial statements for the year ended 31 March 2019.</p> <p>No audit adjustments were required to be made and there are no unadjusted balances that we are required to communicate.</p> <p>We concluded that the other information subject to audit, including parts of the Remuneration Report and the Annual Governance Statement were appropriate.</p>	<p>G R E E N</p>
<p><b>Presentation and disclosures</b></p>	<p>The draft financial statements and supporting working papers were of a good quality. We worked with the Chief Finance Officer to make minor improvements to the Management Commentary.</p> <p>We were satisfied that the Annual Governance Statement reflects the requirements of the <i>Delivering Good Governance Framework</i>.</p>	<p>G R E E N</p>
<p><b>Wider Scope: Financial Management</b></p>	<p>The IJB delivered a £2.9 million underspend against budget in 2018/19. The IJB's reserve balances now total £3.88 million, of which £1.4 million has been earmarked for committed projects. There is scope to improve financial reporting to ensure that the IJB gains the assurance it requires about the effectiveness of resources deployed.</p>	<p>G R E E N</p>
<p><b>Financial Sustainability</b></p>	<p>The IJB has developed the key strategies necessary to support the delivery of the updated Strategic Plan, including the Medium Term Financial Strategy and Integrated Workforce Plan.</p> <p>The IJB has identified a significant funding gap in the period to 2023/24 and greater clarity is needed to continue to develop the Medium Term Financial Planning process.</p>	<p>A M B E R</p>
<p><b>Governance and Transparency</b></p>	<p>Key features of good governance at the IJB are in place and operating effectively. The local code of corporate governance has been updated and the IJB has considered and updated its risk management arrangements, including risk appetite.</p> <p>The IJB's self-evaluation of progress against key features of integration highlights that good progress has been made to achieve the level of collaborative leadership and partnership working necessary to deliver integration.</p>	<p>G R E E N</p>
<p><b>Value for money</b></p>	<p>The IJB continues to develop performance reporting to support the Strategic Plan. In our view, the IJB cannot yet fully demonstrate the impact of integration, or the steps that will need to be taken to achieve the Strategic Plan. We do, however, note that steps have been taken to strengthen the links between the IJB and the delivery-focused Strategic Planning Group</p> <p>The Annual Performance Report 2018/19 highlights a number of areas of improvement achieved through integration.</p>	<p>A M B E R</p>



# Introduction

## **Purpose of this report**

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Integration Joint Board (“the IJB”) for the five year period 2016/17 to 2020/21. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise our key findings and conclusions from our audit work. It is addressed to both members of the IJB and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

We draw your attention to the fact that our audit was not designed to identify all matters that may be relevant to the IJB. Our views on internal control and governance arrangements have been based solely on the audit procedures performed in respect of the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the IJB employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the IJB in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management.

## **Our independence**

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

## Scope and Responsibilities

The Code sets out the responsibilities of both the IJB and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Audit and Risk Committee on 7 March 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. We can confirm that we carried out our audit in accordance with the plan. Minor changes were made to the level of materiality that we applied during the audit, to reflect the 2018/19 draft financial statements. We have set our reporting threshold to communicate the details of errors identified at £69,500.

Overall Materiality

Tolerable Error

Nominal amount

**£1.3 million**

**£1 million**

**£69,500**

2% of the IJB's net expenditure

Materiality at an individual account level

Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

### Financial statement audit

We are responsible for conducting an audit of the IJB's financial statements. We provide an opinion as to:

- ▶ whether they give a true and fair view of the financial position of the IJB as at 31 March 2019 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

### Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our findings for each dimension are summarised in Section 3 of this report.

# Financial Statements audit

## Introduction

The Annual Accounts provide the IJB with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls.

## Compliance with Regulations

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the IJB to prepare financial statements, ensure their availability for public inspection and consideration by the board or a committee with an audit or governance remit. The inspection notice was published by Midlothian Council on the IJB's behalf. While the IJB did not publish the inspection notice by the 17 June deadline, the inspection period was extended to ensure that the full period was available for inspection.

## Audit outcomes

We identified no unadjusted audit differences arising from the audit. Our overall audit opinion is summarised on the following page.

In April 2019, Audit Scotland published a good practice note on improving the quality of integration joint board financial statements. The note included an improvement checklist to assist IJB's in improving the quality and effectiveness of their annual accounts. During the audit process, we drew on the good practice note to highlight minor areas for improvement in disclosures, including:

- ▶ Improved explanation on the IJB's overall performance; and
- ▶ Clarity about the risks facing the IJB and the potential impact.

# Our audit opinion

## Element of opinion

## Basis of our opinion

## Conclusions

<p>Financial statements</p> <ul style="list-style-type: none"> <li>▶ Truth and fairness of the state of affairs of the IJB at 31 March 2019 and its expenditure and income for the year then ended</li> <li>▶ Financial statements in accordance with the relevant financial reporting framework</li> </ul>	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable</p> <p>We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.</p>	<p>We have issued an unqualified audit opinion on the 2018/19 financial statements for the IJB.</p>
<p>Going concern</p> <ul style="list-style-type: none"> <li>▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</li> </ul>	<p>We conduct core financial statements audit work, including management's assessment of the appropriateness of the going concern basis</p> <p>Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.</p>	<p>We have no matters to report.</p>
<p>Other information</p> <ul style="list-style-type: none"> <li>▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</li> </ul>	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> <li>▶ Review of committee and board minutes and papers, regular discussions with management, our understanding of the IJB and the wider sector.</li> <li>▶ Audit Scotland's <i>Improving the Quality of Local Government Annual Accounts: Integration Joint Boards Good Practice Note</i>.</li> </ul>	<p>We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> <li>▶ Audited part of remuneration report has been properly prepared.</li> <li>▶ Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared.</li> </ul>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records, including to the underlying partner's accounting records.</li> <li>▶ Reviewing the content of narrative disclosures to information known to us.</li> <li>▶ Our assessment of the Annual Governance Statement against the Delivering Good Governance Code.</li> </ul>	<p>We have issued an unqualified opinion.</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>▶ there has been a failure to achieve a prescribed financial objective,</li> <li>▶ adequate accounting records have been kept,</li> <li>▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or</li> <li>▶ we have not received the information we require.</li> </ul>	<p>We have no matters to report.</p>

# Significant and fraud audit risks

## **Risk of Fraud in expenditure recognition, including through management override of controls**

As we outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

Due to the nature of funding to the IJB from Midlothian Council and NHS Lothian, we rebutted the assumed fraud risk in respect of the income. For expenditure we associated the risk to the assurance over the existence and occurrence of expenditure incurred by the IJB in commissioning services from the partners.

## **Specific procedures relating to the fraud risk**

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2018/19 our work included:

- ▶ We challenged management on how the IJB gains assurance over the expenditure it incurs and the basis of payments it makes to its partner bodies to deliver commissioned services. Management present financial information to the IJB that clarifies the source of information provided by each of the IJB partners. Reports to the IJB at the year end also made clear that the year end outturn represented the approval by the IJB of the final expenditure incurred in commissioning services from Midlothian Council and NHS Lothian.
- ▶ As part of the year end process, the IJB obtained confirmation statements from the senior finance professionals at NHS Lothian and Midlothian Council of the spend of their respective bodies on delivering services, and hence their request for payment from the IJB to cover those costs. We obtained a copy of those confirmations and agreed figures within the financial statement to source documentation.
- ▶ We obtained independent confirmation from the appointed auditor at both Midlothian Council and NHS Lothian of the income and expenditure transactions recorded at their respective audited bodies. The confirmations agreed the income and expenditure amounts transacted in the year.

### **Risk of management override**

Our Annual Audit Plan recognises that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

### **Risk of Fraud**

- ▶ We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

### **Testing on Journal Entries**

- ▶ We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained all journals posted by management to record the transactions of the IJB, which are hosted on the Midlothian Council financial ledger. All of the journals for the IJB's transactions were posted at the year end and we reviewed all of these in the course of our work.

### **Judgements and Estimates**

- ▶ We agreed with management's assessment that there are no material accounting estimates included in the financial statements. We confirmed the process for ensuring that there were no claims applicable to the IJB which required provision to be made as part of its participation in CNORIS (Clinical Negligence & Other Risks Indemnity Scheme).

### **Accounting Policies**

- ▶ We consider the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the IJB to be appropriate. There are no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.

### **Our conclusions**

- ▶ Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.
- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.



# Wider Scope dimensions

## **Introduction**

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the IJB's arrangements for each of the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the dimensions. In doing so, we draw upon conclusions expressed by other bodies including the IJB's internal auditors and the Care Inspectorate, along with national reports and guidance from regulators and Audit Scotland. For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the IJB's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

## **The Wider Scope dimensions**

### **Financial Management:**

- ▶ considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### **Financial Sustainability:**

- ▶ considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

### **Governance and Transparency:**

- ▶ is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

### **Value for Money**

- ▶ considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

# Financial Management

The IJB delivered a £2.9 million underspend against budget in 2018/19. The IJB's reserve balances now total £3.88 million, of which £1.4 million has been earmarked for committed projects.

There is scope to improve financial reporting to ensure that IJB members gain sufficient assurance about the effectiveness of resources deployed.

G  
R  
E  
E  
N

## Financial Position

As Exhibit 1, below highlights, the IJB reported a surplus in the cost of delivering services of £2.98 million in 2018/19 (2017/18: surplus of £900,000).

### Exhibit 1: The IJB delivered underspends in both health services and social care during 2018/19

	Income £'000	Expenditure £'000	Surplus £'000
Health Services	£102,317	£101,190	£2,127
Social Care	£39,932	£39,081	£851
<b>TOTAL</b>	<b>£142,249</b>	<b>£139,270</b>	<b>£2,978</b>

Source: Midlothian IJB 2018/19 Financial Statements

While there were overspends in the Learning Disabilities budget (£1.878 million) and Community Hospitals (£305,000), the IJB recorded significant underspends including:

- ▶ £2.3 million related to services for older people; and
- ▶ GP prescribing was underspent against budget (by £301,000) for the first time since the creation of the IJB.

The set aside budget, managed by NHS Lothian, recorded an overspend of £458,000. Set aside represents the services that are provided by acute services for people across Lothian, including accident and emergency, general and geriatric medicine and cardiology. Services provided by NHS Lothian are provided on a pan-Lothian basis and a health budget setting model is currently in place, agreed by each of the IJBs in the areas. Expenditure reflects Midlothian IJB's share of the actual costs of the service, currently using an allocation of 10% of costs.

NHS Lothian has undertaken a significant project to review the cost model to ensure that it reflects the respective use of pan-Lothian services as accurately as possible. We expect the results of the review to be presented to each of the IJBs during 2019-20. This exercise may result in changes to the financial allocation in future years.

**Recommendation 1:**  
The IJB should review the reserves strategy to ensure that it continues to meet the needs of the organisation.

## Reserves

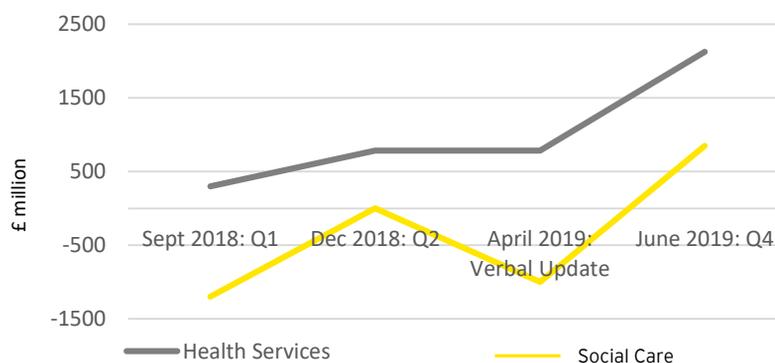
The IJB agreed a Reserves Strategy in February 2017. At that time, the organisation anticipated building reserves to a target level of around £1 million over a period of time. At 31 March 2019, the IJB held reserves of £3.88 million, representing an increase of £2.9 million on the prior year. The majority of the reserves balance is allocated to earmarked projects, with £1.49 million held as an unallocated general reserve (representing around 1% of the IJB’s expenditure).

The IJB has identified a projected overspend of £10.8 million in the period to 2023/24, and there are a number of areas of financial risk that cannot yet be quantified. The IJB should, therefore review its Reserves Strategy to ensure that it continues to reflect the risk profile and priorities of the organisation.

## Financial monitoring

The IJB received high level financial monitoring reports during 2018/19. There was only a verbal update on the Quarter 3 position, which was not minuted, but which outlined a significant and unexpected overspend of £1 million within social care services (refer to Exhibit 2). We understand that this was an error, and was as a result of weaknesses in the financial and management information systems, creating timing delays. There is a risk that this level of fluctuation undermines the credibility of the financial monitoring process.

**Exhibit 2: There was a significant improvement in the outturn against projections within financial monitoring reports.**



Source: Midlothian IJB Financial Monitoring reports 2018/19

**Recommendation 2:**  
There is scope to improve the financial monitoring reports for the IJB to provide members with sufficient assurance about the achievement of the strategic plan.

### **Use of resources**

The Chief Internal Auditor notes within her annual report that it is not clear how the financial management procedures provide assurance that services delivered represent value for money and that resources are being used efficiently and effectively as specified in National Outcome 9.

In our view, the financial monitoring reports that the IJB considered in 2018/19 lacked sufficient detail to allow members to draw conclusions about the effectiveness of resources deployed. While high level reports were prepared to draw members attention to areas of transformation work and service reviews, the reporting on the use and impact of reserves has been limited. We consider that there is scope to ensure that the information presented to members includes key factors such as significant variances, full year projections and the impact on the IJB's reserves position. We do, however, note that the Chief Finance Officer has begun to engage with members to seek their views on the reports to provide adequate assurance and engagement.

# Financial Sustainability

The IJB has developed the key strategies necessary to support the delivery of the updated Strategic Plan, including the Medium Term Financial Strategy and Integrated Workforce Plan. The IJB has identified a significant funding gap in the period to 2023/24.

However, greater clarity is needed to continue to develop the Medium Term Financial Planning process. The IJB must work with partners to ensure that transformation can deliver the required service improvements and savings.

A  
M  
B  
E  
R

## Strategic Priorities

In March 2019, the IJB approved the Strategic Plan 2019-22. The Plan is based on a Joint Needs Assessment (JNA) of the East and West localities served by the partnership, and extensive consultation with local communities. The JNA includes estimates of the impact of demand pressures. Midlothian has one of the fastest growing populations in Scotland. The 2016 projection predicts a population of 100,000 by 2026, representing a 20% increase on the 2011 census and the largest percentage increase will be in those aged 75 and over. The JNA also notes a number of areas where the prevalence of long term conditions is higher than the rest of Scotland, including diabetes, chronic obstructive pulmonary disease (COPD), depression and cancer. People with long term conditions are twice as likely to be admitted to hospital and account for 80% of visits to GP practices. As a result, the Strategic Plan identifies costs associated with demographic pressures of £10.6 million for the five year period from 2019/20 to 2023/24.

The Plan prioritises preventative and early implementation measures to treat the causes of ill health, and recognises the important role that each partner plays in effecting system change, including the link between quality housing and health and wellbeing outcomes for Midlothian communities. The IJB has approved an investment matrix to ensure that all investment decisions are based on agreed categories (Exhibit 3, below).

### Exhibit 3: Investment Decision Making Criteria

- ▶ Prevention - good physical and mental health
- ▶ Recovery and reablement
- ▶ Self management and peer support
- ▶ Anticipatory care and planning for emergencies
- ▶ Community based services, eg Hospital at Home
- ▶ Team working at local level
- ▶ Improving quality and access
- ▶ Community planning - housing, income and transport

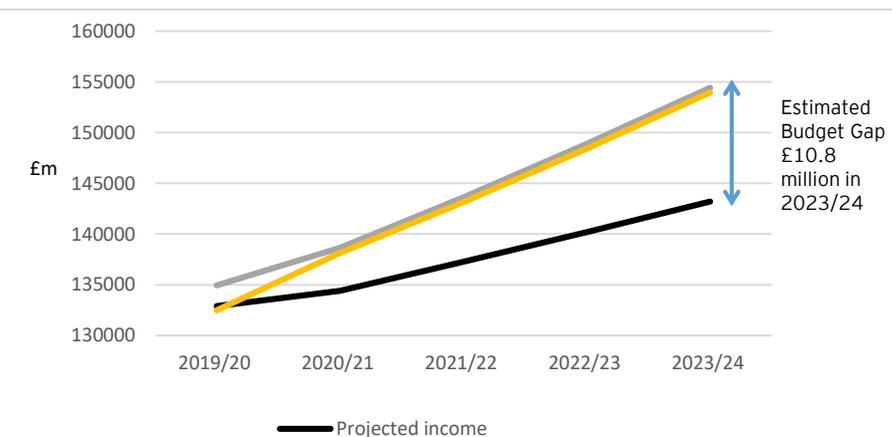
Source: Midlothian IJB Financial Strategy

The Strategic Plan is underpinned by a Medium Term Financial Strategy (approved in September 2018) and a 5 year Financial Plan (June 2019). The IJB drew upon the Scottish Government’s Medium Term Financial Strategy for Health and Social Care to develop longer term assumptions. In addition, both Midlothian Council and NHS Lothian have provided the IJB with three year indicative funding forecasts to support the development of a strategic financial outlook.

### Financial Position

During 2018/19, the IJB continued to develop its longer term financial planning processes. As Exhibit 4 demonstrates, the IJB continues to face a significant budget gap across the period of the Financial Plan, currently projected at £10.8 million (8% of the IJB’s budget) by 2023/24. However, there are still a number of uncertainties that are not fully known, such as the impact of EU withdrawal, particularly on the cost of medicines and the social care sector. We note that the partner bodies continue to report on significant financial pressures, which may have an impact on the IJB. For example, Midlothian Council has recently indicated that it may reduce its proposed allocation for the IJB by £0.5 million in 2019/20, creating an additional cost pressure. The most recent NHS Lothian Plan approved on 3 April 2019 identified a significant savings gap (£26 million) and noted limited assurance on the achievement of a balanced financial position going forward. Auditors have warned that the financial sustainability of NHS Lothian remains a “significant risk”, with a budget gap of £26 million this year expected to increase to £80 million by 2021/22.

**Exhibit 4: The IJB has identified a significant budget gap during the period of the Financial Plan to 2023/24**



Source: Midlothian IJB 5 Year Financial Plan

**Recommendation 3:**  
The IJB must continue to develop a balanced MTFP to support the implementation of the Strategic Plan.

### **Delivery of Savings**

As part of its overall Financial Strategy, the IJB created a transformation programme, known as Realistic Care, Realistic Medicine programme, to begin to address the financial challenges identified in 2019/20 and beyond. The transformation board overseeing the delivery of savings is chaired by the Chief Officer. To date, potential savings of £2.2 million have been identified for 2019/20. Any failure to deliver savings may present a financial risk.

We also note that the current savings proposals are not sufficient to deliver a balanced budget in 2020/21. The IJB must, therefore work with partners to gain assurance that the budget gap can be addressed in future years.

### **Financial Planning**

We also note that in April 2019, the first meeting of the Lothian Integration Care Forum took place to create a better infrastructure for joint planning across the four NHS Lothian IJBs. The Forum brings together the NHS Lothian Chair and Chief Executive, Four Integration Joint Board Chairs and Vice Chairs, Chief Officer Acute Services, Chief Officer IJBs and NHS Lothian Director of Strategic Planning.

The Forum agreed at the first meeting that its aims will include:

- ▶ Improving relationships and understanding, including the different approaches, cultures and challenges between IJBs, councils and NHS Lothian;
- ▶ The development of medium and long-term joint financial planning; and
- ▶ Ensuring that the delivery of care in Lothian is agreed in collaboration with partners, allowing more efficient strategic working and improvements that take into account the needs of all organisations.

While it is too early to assess the impact of the Forum, we are satisfied that there is sufficient participation at IJB board level to ensure that the strategic priorities of the IJB are delivered.

# Governance and Transparency

The key features of good governance at the IJB are in place and operating effectively. The local code of corporate governance has been updated and the IJB has considered and updated its risk management arrangements, including risk appetite.

The IJB's self-evaluation of progress against key features of integration highlights that good progress has been made to achieve the level of collaborative leadership and partnership working necessary to deliver integration.

## Local Code of Corporate Governance

During 2018/19, significant work was undertaken to update the Code of Corporate Governance, to ensure that the IJB complies with the CIPFA/SOLACE *'Delivering Good Governance in Local Government: Framework'* (2016). The revised Code was approved by the IJB in June 2019, and draws upon the self-assessment assurance process led by internal audit to develop the Annual Governance Statement (AGS).

The IJB's AGS reports on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2019/20, including:

- ▶ The ongoing development of the Medium Term Financial Plan;
- ▶ The development of clearer links between the Strategic Plan and local and national outcomes; and
- ▶ Improvements to the Performance Management Framework.

We reviewed the AGS against the required guidance and we were satisfied that the Statement was consistent with both the governance framework and key findings from relevant audit activity. We did, however, note that under the CIPFA/SOLACE Framework, an action plan should be developed and disclosed in the Annual Governance Statement, to allow users to track the progress of improvements.

## Risk management

The IJB has established a risk management strategy and risk appetite, which frames risks in the context of the IJB as a strategic commissioning body. Operational risks that affect the individual partners remain the responsibility and risk of that body until it is considered that a partner risk becomes so significant that it would impact upon the IJB's Strategic Plan. The Risk Management Policy suggests that the partners should regularly bring the risks to the attention of the IJB, but in practice we note that the Chief Finance Officer has fulfilled a role in ensuring that the Audit and Risk Committee has oversight of partner risks.

**Recommendation 4:**  
The IJB should satisfy itself that all risks relating to EU Withdrawal have been identified and mitigating actions taken.

The IJB maintains a risk register which is regularly updated by the relevant risk owners and is subject to quarterly scrutiny by the Audit and Risk Committee. The risk register notes responsible officers and key actions in place to mitigate risks. We do, however, note that only one risk has been identified in relation to the risk of leaving the European Union without a deal, relating to business continuity. The Chief Officer has undertaken to seek confirmation from key strategic partners on their ability to continue to deliver key services in the event of a no deal exit from the European Union on 31 October 2019. Our assessment is that other strategic risks may be present, particularly in relation to the supply of workforce and pharmaceuticals.

### **Changes in Personnel**

The Strategic Risk Register recognises a risk that changing membership of IJB creates challenges to ensure all members have a clear understanding of the Integration of Health and Social Care. Since the creation of the IJB, both the Chief Officer and the Chief Finance Officer have changed. In addition, the current Chief Officer has recently announced that he will be leaving to join another Lothian IJB. The responsibility for Chair of the IJB has also recently passed, in accordance with the Integration Scheme, from an NHS Lothian representative to Midlothian Council.

These changes present a risk that momentum in key developments, such as the Realistic Care, Realistic Medicine Transformation Board may be affected. The MSG improvement framework also places significant expectations on the role of the Chief Finance Officer. This role is currently performed in 0.33 FTE by an NHS Lothian Finance Business Partner. The IJB should, therefore, maintain a watching brief on senior leadership capacity to ensure that sufficient support is offered from partners to deliver the improvement action plan.

### **Member attendance**

During 2018/19, there were nine meetings of the IJB, including two special IJB meetings. In addition, IJB members were invited to a further four development workshops. Attendance from voting members was mixed, but we note that the August 2019 meeting was not quorate and at a further meeting only three voting members and one substitute member were able to attend.

**Recommendation 5:**  
The IJB should review its frequency of meetings of the board and sub-committees to ensure that the cycle allows business to be addressed in a timely and effective basis, while ensuring the quantity of meetings is sustainable.

### **Self Evaluation of Arrangements to support Integration**

In November 2018, Audit Scotland published a progress report on Health and Social Care Integration. The report highlighted a number of challenges faced by IJBs that impacted the pace and effectiveness of intervention. A series of six features that support integration were identified. In February 2019, a Leadership Group led by the Ministerial Strategic Group (MSG) for Health and Community Care, and the Convention of Scottish Local Authorities (CoSLA) reported on their review of progress. The MSG developed a self-evaluation template based on the six key features of integration that each IJB considered and reported to the Scottish Government in May 2019.

The IJB self-evaluation was undertaken during a Board development session in May 2019, which drew together the results of a survey across the partnership. Exhibit 5 highlights the results of the board's self assessment and notes that only two key areas were identified for improvement action, relating to the strategic planning process and ensuring that funding loses its identity as it becomes part of the IJB. An improvement action plan is being developed for submission to the MSG. The IJB has agreed that the responsibility for monitoring implementation will be delegated to the Audit and Risk Committee, but that an annual progress report will be considered by the IJB, commencing in March 2020. We were satisfied that there were no significant gaps in the self-assessment, based on our knowledge of the IJB.

## Exhibit 5: Midlothian IJB Ministerial Strategic Group Self Evaluation

Features of Integration	Not yet established	Partly established	Established	Exemplary
<b>1. Collaborative leadership and building relationships</b>				
All leadership development will be focused on shared and collaborative practice				
Relationships and collaborative working between partners must improve				
Relationships and partnership working with the third and independent sectors must improve				
<b>2. Integrated Finances and Financial Planning</b>				
Health Boards, Local Authorities and IJBs should have a joint understanding of their respective financial positions				
Delegated budgets for IJBs must be agreed timeously				
Delegated hospital budgets and set aside budget requirements must be fully implemented				
Each IJB must develop a transparent and prudent reserves policy				
Statutory partners must ensure appropriate support is provided to IJB S95 Officers.				
IJBs must be empowered to use the totality of resources at their disposal				
<b>3. Effective strategic planning for improvement</b>				
Statutory partners must ensure that Chief Officers are effectively supported and empowered to act				
Improved strategic planning and commissioning arrangements must be put in place				
Improved capacity for strategic commissioning of delegated hospital services must be in place				
<b>4. Governance and accountability arrangements</b>				
The understanding of accountabilities and responsibilities between statutory partners must improve				
Accountability processes across statutory partners will be streamlined				
IJB chairs must be better supported to facilitate well run Boards capable of making decisions on a collective basis				
Clear directions must be provided by IJB to Health Boards and Local Authorities				
Effective, coherent and joined up clinical and care governance arrangements must be in place				
<b>5. Ability and willingness to share information</b>				
IJB annual performance reports will be benchmarked by Chief Officers to better understand local performance data				
Identifying and implementing good practice will be systematically undertaken by all partnerships				
<b>6. Meaningful and sustained engagement</b>				
Effective approaches for community engagement and participation must be put in place for integration				
Improved understanding of effective working relationships with carers, people using services and local communities				
Support carers and representatives of people using services better to enable their full involvement in integration				

Source: IJB Ministerial Strategic Group self assessment, June 2019

# Value for Money

The IJB's Strategic Plan is not yet supported by a Performance Management Framework. In our view, the IJB cannot fully demonstrate the impact of integration, or the steps that will need to be taken to achieve the Strategic Plan.

The Annual Performance Report 2018/19 highlights a number of areas of improvement. The IJB has not yet considered Audit Scotland's Guidance on delivering Best Value.

A  
M  
B  
E  
R

## Performance Reporting

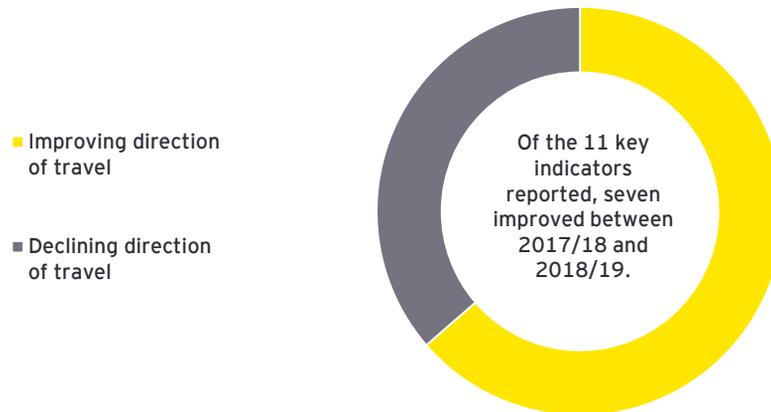
The IJB receives performance reports against key local indicators at each board meeting. These reports include charts with current and target performance to allow members to assess whether the indicator is on track. However, since the style of the reports changed in April 2019, the performance reports have not included an assessment from management about the progress made against target. The most recent reports considered by the IJB in August 2019 highlight a number of areas where performance does not appear to be on track. There is currently no exception reporting to explain where performance trends are below target or improvement actions. We do, however, note that the IJB has recently agreed that the Vice Chair of the Board should begin to chair the Strategic Planning Group. The Strategic Planning Group includes key officers from both partners and therefore has greater operational oversight over performance and the key contributory factors.

The IJB published its Annual Performance Report in July 2019, in line with regulations. As Exhibit 6 highlights, Midlothian IJB's performance against 64% of the indicators reported improved during 2018/19. The report also highlighted a number of areas where significant progress has been made, including:

- ▶ The continued development of the Primary Care Improvement Plan, to support a sustainable workforce and ensure that resources are best prioritised;
- ▶ Advanced Physiotherapy Practitioners now work within 10 GP practices in Midlothian to offer an alternative to seeing a GP. In 2018/19, 3,669 appointments were made which saved 731 hours of GP time and reduced waiting times in core physiotherapy services.
- ▶ GP practice-based pharmacists are in place to ensure that patients get the most appropriate medicines. The "Realistic Medicine" workstream has meant that prescribing costs fell below the budget for the first time in 2018/19.

**Recommendation 6:**  
There is scope to provide enhanced reporting to the IJB on areas where performance is behind target.

---

**Exhibit 6: Performance against key indicators improved overall in 2018/19**

Source: Midlothian IJB Annual Performance Report 2018/19

---

**Unscheduled Care**

In July 2019, NHS Lothian received confirmation that they had been escalated to Level 3 of the NHS Board Performance Framework by the Scottish Government, classified as “significant variation from plan; risks materialising; tailored support required”.

NHS Lothian has established a recovery plan, which will be overseen by the NHS Board, but the IJB has recognised that there are performance issues relating to IJBs, and therefore a need for a collaborative, whole-system approach to ensure that the recovery plan will be delivered. The IJB is working in partnership with NHS Lothian to ensure that infrastructure and programme management arrangements are in place. We will continue to monitor performance overall in 2019/20.

**Inspection Activity**

The Care Inspectorate carried out 24 inspections of the IJB’s care homes and services during 2018/19. The overall quality of care was assessed as good (4) or better in 89% of inspections, which exceeds the Scottish average of 85%.

**Best Value**

Our Annual Audit Plan highlighted Audit Scotland’s guidance on achieving Best Value in IJBs. The guidance was considered by the IJB’s Audit and Risk Committee in March 2019. The Committee agreed to consider the report and the IJB’s self-assessment of arrangements to demonstrate Best Value within an extended future meeting.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit and Risk Committee

D - Action plan

E - Follow up of prior year recommendations

F - Timing and Audit Deliverables

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit committees or equivalent) in monitoring these arrangements.

### Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

### Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

# Appendix B: Independence and audit quality

Professional ethical standards, and the Terms of our Appointment, require us to communicate all significant facts and matters that have a bearing on EY's objectivity and independence as auditor of the IJB.

## Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 7 March 2019.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the IJB consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Risk Committee on 6 September 2019.

## Audit Fees

	2018/19	2017/18
<b>Component of fee:</b>		
<b>Total agreed auditor remuneration</b>	<b>£17,200</b>	£24,000
Audit Scotland fixed charges:		
Pooled costs	£1,670	£1,460
Performance audit and best value	£5,050	£5,020
Audit support costs	£1,080	£1,050
<b>Total fee</b>	<b>£25,000</b>	£31,530

Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2018 UK Transparency Report, volumes one and two, can be accessed on our website at <https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the IJB since appointment can be found at: [www.audit-scotland.gov.uk/uploads/docs/report/2018/as\\_audit\\_quality\\_1718.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf).

# Appendix C: Required communications

Required communication	Our reporting to you
<p><b>Terms of engagement / Our responsibilities</b></p> <p>Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	<p>Annual Audit Report</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

## Required communication

## Our reporting to you

### Related parties

Significant matters arising during the audit in connection with the entity's related parties including, when applicable:

- ▶ Non-disclosure by management
- ▶ Inappropriate authorisation and approval of transactions
- ▶ Disagreement over disclosures
- ▶ Non-compliance with laws and regulations
- ▶ Difficulty in identifying the party that ultimately controls the entity

No significant matters have been identified.

### Independence

Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence

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

- ▶ The principal threats
- ▶ Safeguards adopted and their effectiveness
- ▶ An overall assessment of threats and safeguards
- ▶ Information about the general policies and process within the firm to maintain objectivity and independence

Annual Audit Plan

This Annual Audit Report - Appendix B

### Internal controls

Significant deficiencies in internal controls identified during the audit

This Annual Audit Report - no significant deficiencies reported

### Subsequent events

Where appropriate, asking the Audit and Risk Committee whether any subsequent events have occurred that might affect the financial statements.

We have asked management and those charged with governance. We have no matters to report.

### Material inconsistencies

Material inconsistencies or misstatements of fact identified in other information which management has refused to revise

This Annual Audit Report

# Appendix D: Action Plan

This action plan summarises specific recommendations included elsewhere within this Annual Audit Report. We have graded these findings according to our consideration of their priority for the IJB or management to action.

## Classification of recommendations

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

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p>The reserves strategy agreed in February 2017 set a target level of reserves of £1 million.</p> <p>The IJB now has general reserves of £1.49 million, against a projected budget gap of £10.8 million in the period to 2023/24.</p>	<p>The IJB should review the reserves strategy to ensure that it continues to meet the needs of the organisation.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Management accepts this recommendation. Given the IJBs current reserves position and the policy being agreed in February 2017 management accepts a review of this would be beneficial.</p> <p>Responsible officer: Chief Financial Officer Implementation date: March 2020</p>
2	<p>While the IJB operates at a strategic level, we consider that there is scope to improve the quality of financial reporting to ensure that the IJB can monitor the direction of travel against priorities within the Strategic Plan.</p>	<p>There is scope to improve the financial monitoring reports for the IJB to provide members with sufficient assurance about the achievement of the strategic plan.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The financial monitoring reports continue to be refined and we regularly seek feedback from members regarding reports providing them assurance and oversight. Further workshops are planned with all IJB members over the coming year to ensure they are supported to discharge the appropriate level of scrutiny to the financial reports.</p> <p>Responsible officer: Chief Financial Officer Implementation date: March 2020</p>
3	<p>The IJB recently developed a 5 year rolling financial plan. However, a number of uncertainties remain and there is not yet a balanced MTFP in place to support the implementation of the Strategic Plan.</p>	<p>Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis and the IJBs Strategic Plan is delivered.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The Medium Term Financial Plan continues to be refined and developed and through the RCRM transformation board the medium term financial recovery action will be developed. The IJB acknowledges uncertainty regarding financial sustainability across the public sector and the significant financial challenges facing both partners and therefore the IJB. We will look to utilise the Scottish Governments Medium Term Financial Framework for Health &amp; Social Care to support this work</p> <p>Responsible officer: Chief Financial Officer Implementation date: March 2020</p>

## Classification of recommendations

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

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
4	The IJB places reliance on the partner bodies to mitigate a number of key operational risks, including the impact of EU Withdrawal. We consider that the risks relating to EU Withdrawal have not been fully articulated in relation to the strategic role of the IJB.	The IJB should satisfy itself that it has sufficient assurance that strategic risks relating to EU Withdrawal have been identified and mitigating actions taken.  <i>Grade 2</i>	While operational risks are being reviewed and managed within the Health & Social Care Partnership across both Council and NHS, we accept there needs to be further assurance on the impact and management of these risks to the IJB.  Responsible officer: Chief Officer Implementation date: 31 Oct 2019
5	Attendance from voting members at IJB meetings was mixed, but we note that the August 2019 meeting was not quorate and at a further meeting only three voting members and one substitute member were able to attend.	The IJB should review its frequency of meetings of the board and sub-committees to ensure that the cycle allows business to be addressed in a timely and effective basis, while ensuring the quantity of meetings is sustainable.  <i>Grade 3</i>	There is a recognised need to review the meeting frequency to ensure full engagement and attendance at IJB meetings and this will be progressed as part of the wider development programme for the IJB.  Responsible officer: Chief Officer Implementation date: March 2020
6	There is scope to improve the performance reporting arrangements to provide assurance to the IJB that the delivery of the Strategic Plan is on track.	The IJB should review performance reporting arrangements to ensure that members have sufficient assurance that the Strategic Plan is on course and that the IJB is achieving Best Value.  <i>Grade 2</i>	Management acknowledges the need for an improved link between the IJB and the Strategic Planning Group and work is underway to support this. The Vice Chair of the IJB will take up the Chair of the SPG and the IJB will receive SPG minutes routinely. In addition, reports to the SPG now require information on performance and progress towards achieving Strategic Plan outcomes.  Responsible officer: Chief Officer / Integration Manager Implementation date: March 2020

# Appendix E: Follow up of prior year recommendations

This section of our report summarises our assessment of the IJB's progress against the recommendations that we identified during our 2017/18 audit.

Prior year recommendations			
No.	Recommendation / grading	Management response/ Implementation timeframe	Our assessment of progress
1	<p>While the IJB has taken forward its financial strategy, significant work is still required to ensure that actions to address both the in-year position, as well as the forecast pressures over the next three years, are addressed.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Management accepts there is work to be done in addition to the work that has already been delivered. The financial strategy and the financial plan are being developed and three reports have already gone to the IJB with a further paper going in September 2018.</p> <p>The financial strategy lays out the fundamental financial principle which is that the IJB will use the totality of its resources to deliver its Strategic Plan emphasising that a sustainable financial model is a key deliverable and then describes the transformational process.</p> <p>In 2018/19, actions have been taken which have significantly reduced the in-year financial risk. The IJB has a reserve and has indicated that, if required, additional resources can be used to support the in-year position.</p>	<p>While further work has been undertaken to develop a rolling 5 year financial plan, as we indicate within Appendix D, recommendation 4, further work is required to provide a balanced medium term plan.</p> <p>Our assessment: <b>Ongoing. Now superseded by Action 3 on page 29.</b></p>
2	<p>Earlier planning is needed to ensure that the annual performance report for 2018/19 can be considered and approved at an IJB Board meeting in June, to allow publication by the deadline.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The annual report relies on activity and measurement data from information provided by NSS. This information was not received in time to allow the draft annual report to be presented to the IJB at its June meeting.</p> <p>This was reported to the IJB by the Chief Officer and approval was also sought from the Scottish Government to reflect that the annual report would not be delivered by the deadline due to the issues noted above.</p> <p>Going forward for 2018/19 reporting arrangements are being made to ensure all data required for the annual report is received in time to report to the IJB in line with the 31 July deadline.</p>	<p>The IJB experienced similar delays in obtaining performance information from NSS. However, the IJB formally delegated responsibility for approving the Annual Performance Report to the Chief Officer to ensure that the deadline was achieved in 2018/19.</p> <p>Our assessment: <b>Complete</b></p>

# Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the IJB, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2018/19 audit cycle.

	Audit Activity	Deliverable	Timing
JAN	➤ Audit planning and setting scope and strategy for the 2018/19 audit	Annual Audit Plan	7 March 2019
FEB			
MAR	➤ Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information	n/a - as appropriate	n/a
APR			
MAY			
JUN	➤ Year-end substantive audit fieldwork on unaudited financial statements	Audit clearance meeting	July / August 2019
JUL			
AUG	➤ Conclude on results of audit procedures	Certify Annual Financial Statements	18 September 2019
SEP			

## EY | Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://www.ey.com).

### Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2019 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

[ey.com](https://www.ey.com)