



# West Lothian Integration Joint Board

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

**12 September 2019**



**EY**  
Building a better  
working world

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## 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 West Lothian 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 (the Code), issued on 26 May 2016. This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together with the Recipients). 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

<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 differences 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 draw upon good practice guidance issued by Audit Scotland to further enhance the Management Commentary and other minor disclosures.</p> <p>We were satisfied that the Annual Governance Statement materially 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>There were financial pressures on the IJB's budget throughout 2018/19, however these were consistently reported by management through the financial year.</p> <p>We are satisfied that the core financial management arrangements established by the IJB are adequate for the current management of its financial activities.</p>	<p>G R E E N</p>
<p><b>Financial Sustainability</b></p>	<p>The IJB has continued to develop its longer term planning arrangements through delivery of a medium term financial plan through to 2022/23, and has identified an initial £26 million gap across all functions.</p> <p>While the service planning for the Council delivered IJB social care functions is well advanced, significant work remains to be done to ensure the IJB meets its financial plan across the period. This is particularly challenging given the risk around the future financial position outlined for NHS Lothian.</p>	<p>A M B E R</p>
<p><b>Governance and Transparency</b></p>	<p>We have concluded that overall the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity. Internal audit has concluded that "the framework of governance, risk management and control is generally sound".</p> <p>The IJB has continued its approach to risk management, with the risk register considered regularly by the Audit, Risk and Governance committee.</p>	<p>G R E E N</p>
<p><b>Value for money</b></p>	<p>The IJB's Annual Performance Report was published by 31 July 2019, in line with the requirements of legislation. The IJB also considered its assessment against the best value compliance framework in the year.</p> <p>The Annual Performance Report highlights key areas of investment and performance against its strategic plan outcomes. The report highlighted a number of areas of good performance. The report did highlight ongoing pressures in delivery around delayed discharges.</p>	<p>G R E E N</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 West Lothian 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 public 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, Risk and Governance Committee on 28 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, and no changes were made to the level of materiality that we applied. In accordance with the plan, we have set our reporting threshold to communicate the details of errors identified at £100,000.

Overall Materiality	Tolerable Error	Nominal audit differences amount
<b>£2.2 million</b>	<b>£1.7 million</b>	<b>£100,000</b>
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 materiality, 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 sustainability;
- ▶ Financial management;
- ▶ 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, based on the requirements of ISA (UK) 240, that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition 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 IJB's unaudited financial statements were considered by the board on 26 June 2019, prior to their submission to us for audit, and in advance of the deadline of 31 August. The inspection notice was published on 13 June, in accordance with Regulations.

### **Preparation of the financial statements**

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 areas for improvement, including:

- ▶ Improved explanation on the IJB's overall performance, including greater analysis of performance indicator trends.
- ▶ Clarity about the risks facing the IJB and the potential impact and mitigations.
- ▶ Enhanced disclosures around the future financial outlook and plans for the IJB.

We also made a number of recommendations in respect of presentational changes to the unaudited accounts, to ensure compliance with accounting standards and good practice. All changes have been made in the final version of the financial statements.

### **Audit outcomes**

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

# 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</i> Good Practice Note.</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 and Audit Scotland's Good Practice Note.</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 our data download of 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 <i>Delivering Good Governance Code</i>.</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 issued an unqualified opinion.</p>

# Significant and fraud audit risks

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

As outlined in our Annual Audit Plan, ISA (UK) 240 requires auditors to assume that fraud risk from income recognition is a significant risk to the financial statements. Due to the nature of funding to the IJB from West Lothian Council and NHS Lothian, we rebut the assumed fraud risk in respect of the income. However, in the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

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. With respect to the IJB, we consider this would occur through inappropriate recognition or non-recognition of expenditure in the year.

We undertake specific additional procedures for income and expenditure streams where we identified a fraud risk, as well as mandatory procedures to address the risk of misstatement through management override. For 2018/19 our work included:

- ▶ Challenging 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 presents financial information to the IJB that clarifies the source of information provided by each of the IJB partners. Reports to the IJB at the yearend also made clear that the year end outturn represented the approval by the IJB of the final expenditure incurred in commissioning services from West Lothian Council and NHS Lothian.
- ▶ Agreeing confirmation statements from the IJB partners of the spend of their respective bodies on delivering services to the financial statements.
- ▶ Obtaining independent confirmation from the appointed auditor at both West Lothian Council and NHS Lothian of the income and expenditure transactions recorded at their respective audited bodies.
- ▶ We obtained all journals posted by management to record the transactions of the IJB, which are hosted on the West Lothian 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.
- ▶ We considered the risk of fraud, enquired with management about its assessment of the risks 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.
- ▶ We agreed with management's assessment that there are no material accounting estimates included in the financial statements.
- ▶ We considered 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 with no material departures from what is acceptable under IFRS or the Code.

Our testing has not identified any material misstatements relating to income or expenditure recognition.

We have not identified any material weaknesses in the design and implementation of controls around journal processing.

# 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 and at the yearend, 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

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There were financial pressures on the IJB's budget throughout 2018/19, however these were consistently reported by management through the financial year.

We are satisfied that the core financial management arrangements established by the IJB are adequate for the current management of its financial activities.

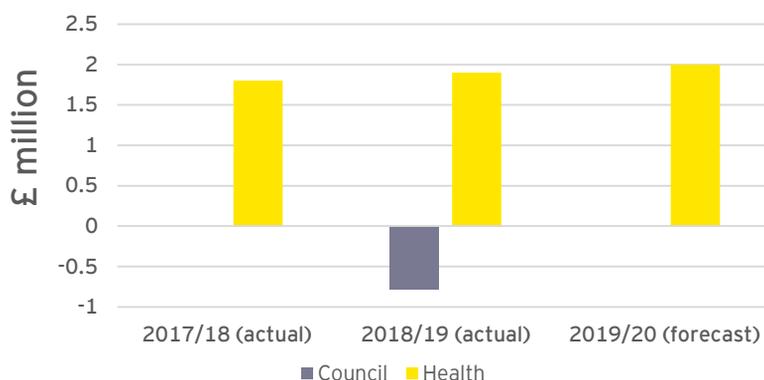
## Financial Position

Throughout 2018/19, the IJB reported budget pressures in the cost of delivering services, primarily in respect of designated health function services. At the financial yearend adjustments to partner funding contributions were agreed to balance the general fund income and expenditure in the year, comprised of:

- ▶ £0.8 million reduction in funding contribution from West Lothian Council, following underspends in the year through non-delivery of agreed services relating to insufficient capacity being available from care providers to deliver planned levels of care services; and
- ▶ an additional contribution of £1.9 million from NHS Lothian to fund additional costs in the year. This is materially in line with the additional contribution required in 2017/18 (£1.8 million), and the currently forecast budget gap in 2019/20 (£2 million).

We have commented on future financial planning in more detail in our financial sustainability dimension section of our wider scope work.

**Exhibit 1: Final budget to actual expenditure variances by partner**



Source: yearend financial outturn reports submitted to IJB

## Financial management arrangements

Through the year we have observed that the IJB receives regular financial monitoring reports, including forecast over and underspends for the full year. Relative to the scale of expenditure incurred by partners in undertaking their functions, the variances identified through the year indicate monitoring controls are robust.

Financial regulations have been established for the IJB, and these are kept up to date. In accordance with statutory requirements, the IJB appointed a Chief Finance Officer (CFO). The CFO is employed by West Lothian Council and also holds an operational role in the finance team at the Council. We are satisfied that the IJB has made arrangements for the proper administration of its financial affairs.

## Reserves

At 31 March 2019 the IJB held financial reserves of £480,000. These reserves related to funding from partners earmarked for specific future projects, and will be drawn down accordingly in 2019/20. We are satisfied this adjustment to the yearend position was reflective of the timing of the funding being confirmed and received rather than inaccurate financial forecasting. This is the first time the IJB has carried forward reserves.

The IJB approved reserves policy, approved by the board in June 2017, states that there is no minimum reserve level for general funds to be held by the IJB, but that the "Chief Finance Officer must take account of the strategic, operational and financial risks facing the IJB over the medium term and the IJB's overall approach to risk management" in determining the reserves. The policy noted an indicative target over the course of the IJB's medium term financial plan of 2% of net expenditure, which would amount to £5.1 million at 31 March 2019. In the current and forecast financial climate, it is unlikely general reserves of this level will be attainable, particularly as funding pressures on partners increase the likelihood of general underspends in year being recovered rather than retained as reserves of the IJB.

The IJB is due to review its financial regulations in 2019/20, and management has confirmed it will also consider the reserves policy and the appropriate target reserves against the medium term financial plan, integration scheme arrangements and wider environment.

**Recommendation 1:**  
The IJB reserve policy update should take into account the IJB's MTFP and integration scheme as well as the wider financial environment.

# Financial Sustainability

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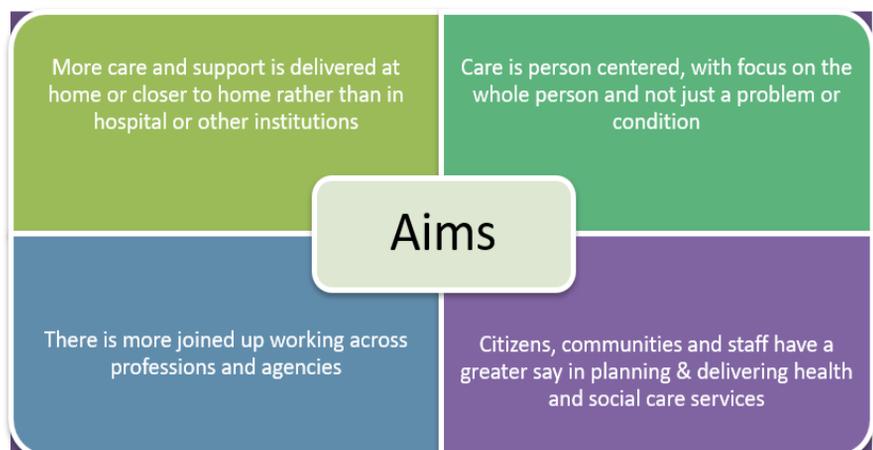
The IJB has continued to develop its longer term planning arrangements through delivery of a medium term financial plan through to 2022/23, and has identified an initial £26 million gap across all functions.

While the service planning for the Council delivered IJB social care functions is well advanced, significant work remains to be done to ensure the IJB meets its financial plan across the period. This is particularly challenging given the risk around the future financial position outlined for NHS Lothian.

## Strategic Priorities

In April 2019, the IJB approved an updated Strategic Plan to cover the period to 31 March 2023, which sets out how the IJB intends to deliver the nine national health and wellbeing outcomes through agreed strategic priorities and transformational change programmes. The key aims are set out below:

### Exhibit 2: Key strategic aims of the IJB



Source: West Lothian IJB 2018/19 financial statements

The plan recognises that strategic planning for service delivery is intrinsically linked with longer term financial planning, and sets out a requirement for partners to work with the IJB on the preparation of a medium term financial strategy.

## Medium Term Financial Planning

During 2018/19, the IJB continued to develop its longer term financial planning processes to support the implementation of its strategic plan, and in April 2019 submitted an updated medium term financial plan to the board, covering the financial years up to 31 March 2023. This included a summary of the current budget gaps forecast by the IJB over the period, outlined below. There remains a risk that IJB functions will be required to deliver further savings subject to ongoing work progressing on West Lothian Council's overall medium term financial strategy, as well as pending confirmation of the Scottish Government's local government settlement.

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.

### Exhibit 3: West Lothian IJB Budget savings gaps 2019-2023

Year	2019/20	2020/21	2021/22	2022/23	Total
Budget gap / £m	6.1	7.7	6.7	5.7	26.3
Savings identified / £m	4.7	5.4	4.5	4.4	19.0
Remaining gap / £m	1.4	2.3	2.2	1.3	7.3

Source: West Lothian IJB Medium Term Financial Plan update

## Medium Term Financial Planning risks

Of the savings identified to date, £14.2 million have been identified by West Lothian Council, meaning social care functions forecast a balanced budget over the period to 2023. The £7.3 million gap relates to services provided by NHS Lothian. We have outlined in our financial management section the recurring overspends in service delivery incurred through health services in 2017/18 and 2018/19, as well as the forecast budget pressures in 2019/20.

The 2019/20 forecast position takes into account a number of updates since the initial budget, including revised underlying contributions from NHS Lothian through the MTFP period, which has improved the forecast position.

There continues to be significant uncertainty around the future financial position surrounding health services:

- ▶ There has been a recurring history of overspend on the health services delivery in the IJB, with yearend additional contributions required to balance the budgeted and actual expenditure.
- ▶ 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. The appointed external auditor has highlighted 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.
- ▶ The IJB’s medium term financial plan outlines a number of key risks and uncertainties which could materially impact the figures, and critically the savings required, outlined above. These include future government funding levels, pay awards, demographic change assumptions, future drug costs and the delivery of delayed discharge targets. While risks around assumptions are a normal part of financial forecasts this increases the risk around delivery for the IJB significantly.

**Recommendation 2:**  
Support from partners is critical to allow the IJB to continue to develop and deliver its medium term financial plan.

In our view management at the IJB is sufficiently sighted to the risk around financial sustainability going forward, and has developed a close working relationship with its partners to address savings requirements through the medium term financial plan period. The delivery of the medium term financial plan, in particular the currently identified required savings, and potential additional savings as risks and sensitivities are realised, remains a material risk for the IJB. In order to mitigate this risk there will need to be an increasing focus on partnership working and support from the IJB’s partners in financial reporting, planning and risk assessment.

# Governance and Transparency

We have concluded that overall the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity. Internal audit has concluded that “the framework of governance, risk management and control is generally sound”.

The IJB has continued its approach to risk management, with the risk register considered regularly by the Audit, Risk and Governance committee.

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## 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 board discussed and reviewed the recommendations around integration during a development session in February 2019 and completed the self-assessment as part of the May 2019 development session, with the results reported to the June 2019 board meeting. Following this meeting an improvement plan was drafted and shared with the board and partners for consideration. The plan was approved by the IJB and agreed to be submitted to the MSG pending comment from West Lothian Council and NHS Lothian. Key areas for improvement identified through the process related to:

- ▶ Financial planning arrangements going forward;
- ▶ Pooling of resources across the partnership;
- ▶ Strategic planning and commissioning; and
- ▶ Joining up of governance arrangements.

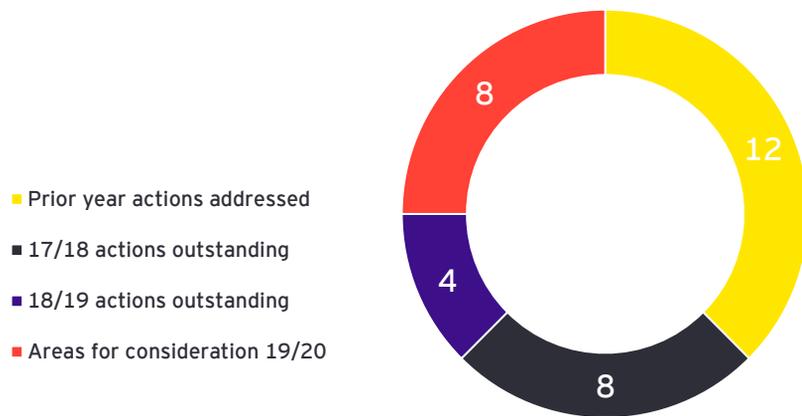
All areas included an assessment of the current status and summary of actions to be undertaken to action improvements, including responsible officers and timescales for implementation. At the August 2019 board meeting this was approved for submission, pending comments from the West Lothian Council and NHS Lothian.

The Board has undertaken a self-evaluation in the year, incorporating external recommendations around integration, and developed an action plan to address areas identified for improvement.

## Annual Governance Statement

Under the CIPFA framework for *Delivering Good Governance in Local Government*, the IJB uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2019/20. The governance statement for 2018/19 concluded that “Based on the Board’s governance framework described in this statement the Board and the West Lothian community can be assured that the Board’s corporate governance standards have been substantially met in 2018/19.”

### Exhibit 4: Progress against governance priorities for 2018/19



Source: Annual Governance Statement 2018/19

The IJB’s Annual Governance Statement has summarised progress made in the year, as well as a number of areas for continued enhancement in governance arrangements.

The Annual Governance Statement noted a number of areas of improvement outstanding from previous years, as well as areas for consideration in 2019/20, as outlined above. In our view, while there are no specific actions outstanding that indicate significant governance weakness, the scale of work to be done demonstrates the ongoing focus required in respect of the continuous improvement of the IJB’s governance arrangements, in what is still a relatively new body.

### Internal audit annual report

The IJB’s Internal Audit opinion for the year concluded that “the framework of governance, risk management and control is generally sound”, which represents an improved position from 2017/18. It was noted that one report, on workforce planning, was agreed between internal audit and management to be delayed until 2019/20. This is an area of significant strategic focus for the IJB.

We reviewed the Annual Governance Statement within the financial statements against the required guidance. We were satisfied that the statement materially met the requirements and was consistent with both the governance framework and key findings from relevant audit activity.

## Managing Risk

The IJB has continued to implement its risk management strategy, which was approved in June 2018, throughout 2018/19. In June 2019 the IJB risk manager presented the risk management annual strategy to the Audit, Risk and Governance Committee, concluding that “the IJB has effective risk management in place” through the year. This includes the Audit, Risk and Governance Committee considering the IJB’s risk register twice a year. Following a request from the Audit, Risk and Governance Committee in March 2019 the committee now reviews high risks on the register at every meeting.

The high risks currently on the IJB’s Strategic Risk Register are:

- ▶ Sustainability of primary care;
- ▶ Delayed discharge;
- ▶ Inadequate funding; and
- ▶ Workforce planning.

We have observed the committee’s consideration of risk throughout the year through our attendance at meetings and noted rigorous review of the risks and how they are being mitigated and addressed by management. As the IJB continues to embed robust governance arrangements, we have highlighted a few areas of ongoing consideration for the committee to ensure continuing good practice in risk management:

- ▶ It is pivotal that the risks are continually refreshed against other work being undertaken across the IJB, for example the delivery plan, audit findings and self-evaluations, and developments across local government and health.
- ▶ Mapping the Strategic Risk Register to each partners’ Risk Register, ensuring awareness and escalation of risks across the partnership.
- ▶ Continuing consideration around risk appetite and guiding principles, on when risks can be accepted, or where further mitigation is required.
- ▶ Ensuring the outputs of the risk management process, such as the risk register presented to the committee on a routine basis, are clear, understandable and concise and allow focus on key issues and actions rather than process.

**Recommendation 3:**  
As the IJB continues to refine its risk management procedures we have highlighted a few ongoing areas for continuous improvement.

## Preparations for EU Withdrawal

We noted within our Annual Audit Plan that Audit Scotland had highlighted preparations for EU withdrawal as a risk across public sector bodies. We drew on good practice guidance from Audit Scotland to assess the IJB's readiness for Brexit as at the planned departure date of 29 March 2019, and its subsequent readiness following the planned postponement to 31 October.

We noted that management has kept the board and Audit, Risk and Governance Committee informed on the current status, associated risks and work being undertaken to support readiness across the partnership, with updates being provided in advance of both the original planned departure date and the revised October date. Working groups have been set up by both partners as well as a local HSCP Brexit Group. The key risks identified relate to recruitment and retention of staff, securing continuity of supplies, medicines, food and delivery of contracted services by external providers. The IJB notes the significant uncertainty around the current situation and is committed to ensuring it reacts rapidly to address matters as they develop in advance of 31 October.

In our view the IJB has undertaken a robust approach to assessing the impact of anticipated EU withdrawal both at 29 March and in anticipation of the revised withdrawal date, relative to the scale of the entity and specific risks likely to impact it directly. We anticipate risk assessment and mitigations, in particular in respect of risks that can directly impact IJB operations and partnership working, will continue to increase in frequency and priority as the revised withdrawal date approaches and/or the nature of withdrawal is clarified.

In our view the IJB has undertaken a robust approach to assessing the impact of anticipated EU withdrawal both at 29 March and in anticipation of the revised withdrawal date.

# Value for Money

The IJB's Annual Performance Report was published by 31 July 2019, in line with the requirements of legislation. The IJB also considered its assessment against the best value compliance framework in the year.

The Annual Performance Report highlights key areas of investment and performance against its strategic plan outcomes. The report highlighted a number of areas of good performance. The report did highlight ongoing pressures in delivery around delayed discharges.

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## Context

2018/19 represents the third year of material operations for IJB's across Scotland. Significant efforts have been undertaken to set up new entities with their own governance and financial management arrangements, and to set up the structures required to deliver integration across Scotland. As part of these arrangements, IJB's have begun to consider how to deliver and demonstrate value for money in line with statutory requirements.

As IJBs continue to develop, there is now an increased focus on the outputs and deliverables coming from integration in Scotland. This has been demonstrated through reporting across regulatory bodies, including Audit Scotland, in 2018/19, outlining key areas for improvement across the sector in respect of delivering integration. In our view, this focus is going to continue to increase in 2019/20 and beyond as stakeholders scrutinise the value delivered through the integration process, and in particular:

- ▶ how partners have transformed working arrangements to work together, pooling resources and aligning priorities;
- ▶ how financial planning is being led through integration rather than separate budgets; and
- ▶ the pace of change around delivery of key outcomes for integration.

Following our recommendation from our 2017/18 audit, we have confirmed that the IJB has complied with the requirements to publish its Annual Performance Report by 31 July.

## Performance Reporting

In our 2017/18 Annual Audit Report, we noted that the IJB should ensure its Annual Performance Report is finalised and published by 31 July in accordance with the requirements of the Act. We confirmed this action has been addressed in 2018/19.

In July 2019, the IJB published its Annual Performance Report following consideration by the board. The IJB was responsible for spending £252 million in 2018/19. The Annual Performance Report highlights key areas of investment, and includes a range of performance measures against the outcomes included in its strategic plan.

The outcomes highlighted a number of areas of good performance and where progress has been made. Of the eight outcomes considered in the report, four showed an improved position across key indicators, and two showed areas where performance had declined (two areas were not measured in the year due to availability of information). In particular the report highlighted ongoing pressures in delivery around delayed discharge, which has been recognised by the board as an ongoing area for focus.

## Best Value compliance

The IJB also considered its compliance with the Best Value Framework in the year, and in March 2019 submitted a review of compliance against the seven areas of best practice identified. The review concluded that the IJB “demonstrated substantial compliance with best value based on the agreed framework”. It was noted the areas for ongoing improvement identified were consistent with those identified in the Annual Governance Statement for 2018/19:

- ▶ workforce and succession planning across the partnership; and
- ▶ the development of a communications strategy.

## 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.



# 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 - Timing and deliverables of the audit

# 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, Risk and Governance 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 28 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, Risk and Governance committee on 4 September 2019.

## Audit Fees

	2018/19	2017/18
<b>Component of fee:</b>		
<b>Total agreed auditor remuneration</b>	<b>£17,200</b>	<b>£16,470</b>
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>	<b>£24,000</b>

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: [https://www.audit-scotland.gov.uk/uploads/docs/report/2018/as\\_audit\\_quality\\_1718.pdf](https://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, Risk and Governance 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, Risk and Governance 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>

Required communication	Our reporting to you
<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, Risk and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit, Risk and Governance Committee may be aware of</li> </ul>	Annual Audit Report - no matters identified.
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Annual Audit Report - No significant matters have been identified.
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Annual Audit Plan Annual Audit Report - Appendix B
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	Annual Audit Report - no significant deficiencies reported
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the Audit, Risk and Governance Committee whether any subsequent events have occurred that might affect the financial statements.</p>	We have no matters to report. We will continue this procedure up to the date of our approval of the financial statements.
<p><b>Material inconsistencies</b></p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	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	The IJB reserves policy notes an indicative reserves target over the course of the IJB's medium term financial plan of 2% of net expenditure, which would amount to £5.1 million at 31 March 2019. In the current and forecast financial climate, it is unlikely general reserves of this level will be attainable going forward	The IJB reserve policy update should take into account the IJB's MTFP and integration scheme as well as the wider financial environment.  <i>Grade 3</i>	The IJB Reserves Policy will be reviewed and updated during 2019/20, considering the comments made by external audit, and reported to the board for approval.  <b>Responsible officer:</b> IJB Chief Finance Officer  <b>Implementation date:</b> 31 March 2020
2	The IJB MTFP highlights a savings gap of £7 million in advance of the 2019/20 financial year, as well as a number of key assumptions in the plan which could adversely impact savings requirements on realisation. The savings gap are materially related to health service delivery while the Council shows a balance budget.	Support from partners is critical to allow the IJB to continue to develop and deliver a MTFS.  <i>Grade 1</i>	Further development of IJB Medium Term Financial Strategy and savings proposals will be undertaken during 2019/20. This will involve close partnership working with partner bodies and finance. As well as existing arrangements in place, this will be enabled through joint Lothian Finance Group established comprising of NHS Lothian Director of Finance, Lothian Local Authority Section 95 officers and Lothian IJB Chief Finance Officers. A key area being progressed by the group is developing a more joined up approach to financial planning.  <b>Responsible officer:</b> IJB Chief Finance Officer  <b>Implementation date:</b> Ongoing through 2019/20 and updated MTFP to be reported to the Board in early 2020 following the 2020 Scottish Budget and confirmed funding settlements for partner bodies.

## 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
3	We have observed the Committee's consideration of risk throughout the year through our attendance at meetings and noted rigorous review of the risks and how they are being mitigated and addressed by management.	As the IJB continues to refine its risk management procedures we have highlighted a few ongoing areas for continuous improvement.  <i>Grade 3</i>	Risk management procedures will continue to be reviewed and developed taking account of the areas for consideration identified to ensure continuing good practice is applied to the IJB's approach to risk management  <b>Responsible officer:</b> IJB Director  <b>Implementation date:</b> Ongoing throughout 2019/20

# Appendix E: 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			
FEB	<ul style="list-style-type: none"> <li>➤ Audit planning and setting scope and strategy for the 2018/19 audit</li> </ul>	Annual Audit Plan	6 March 2019
MAR			
APR			
MAY	<ul style="list-style-type: none"> <li>➤ Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information</li> </ul>	n/a - as appropriate	n/a
JUN			
JUL	<ul style="list-style-type: none"> <li>➤ Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Audit clearance meeting	July / August 2019
AUG			
SEP	<ul style="list-style-type: none"> <li>➤ Conclude on results of audit procedures</li> <li>➤ Issue opinion on the IJB's financial statements</li> </ul>	Certify Annual Financial Statements  Issue Annual Audit Report	12 September 2019

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