

# West Lothian Integrated Joint Board

**Annual Audit Plan**

**Year ending 31 March 2020**

**Audit, Risk & Governance  
Committee - 4 March 2020**

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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 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](mailto: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.

# 1. Executive summary

## Purpose of this report

### Our key contacts:

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The Accounts Commission appointed EY as the external auditor of West Lothian Integration Joint Board ("the IJB") for the five year period to 2020/21.

This Annual Audit Plan, prepared for the benefit of IJB management and the Audit, Risk & Governance Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2020. This plan sets out the work we will perform to allow us to provide our independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value. After consideration by the IJB, the plan is provided to Audit Scotland and published on their website.

### 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.

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the IJB and the auditor, more details of which are provided in Appendix A.

## Our Financial Statement Audit

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the IJB as at 31 March 2020 and of its income and expenditure for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the IJB along with the financial statements.

## Wider Scope audit responsibilities

Under the Code, we are required to provide judgements and conclusions on the four dimensions of wider-scope public audit, as well as an assessment around the IJB's arrangements for securing Best Value:

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

# Audit Dashboard

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and materiality.

## Key Financial Statement Risks

There are no new financial statements risks identified at the IJB for 2019/20:

### Significant Risk:

Risk of fraud in expenditure recognition, including through management override of control

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. For the IJB we consider this risk to manifest itself through the above revenue recognition risk around expenditure.

Materiality levels have been set at the planning stage of the audit as follows:

Planning Materiality

Tolerable Error

Reportable differences

**£2.5 million    £1.8 million    £125,000**

Materiality has been set at approximately 1% of expenditure for the year.

Materiality at an individual account level, representing 75% of our planning materiality

Level of error that we will report to committee

We apply a lower level of materiality to the audited part of the Remuneration Report. Professional judgement is also applied to the materiality of related party transactions.

## Wider Scope Risks

We have updated our understanding of the risks impacting the IJB through discussions with management, review of relevant committee reports, and our knowledge of the environment in which the IJB is currently operating.

### Financial Sustainability:

Continuing financial pressures

The IJB identified an initial £26 million budget gap across all functions over the period 2019/20 to 2022/23 as part of the financial plan reported to the Board in 2019/20. Taking into account savings identified to date over the same financial period a £7 million gap currently remains. While service planning for the IJB social care functions is more advanced, significant work remains to be done to ensure the IJB meets its financial plan across the period.

## 2. Sector developments

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the IJB operates to inform our audit approach.

### **Scrutiny**

A National Scrutiny Plan (NSP) was published by the Accounts Commission (on behalf of the Strategic Scrutiny Group) in September 2019. The NSP summarises all planned and announced strategic scrutiny activity from September 2019 in each of Scotland's 32 councils. The plan was based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the various councils.

The 2019/20 West Lothian Scrutiny Plan highlighted no significant risks in relation to the IJB

While there is no formal Shared Risk Assessment (SRA) process for integration authorities, the LAN for the associated local authority considers health and social care outcomes, governance and partnership working as part of their assessment of the local authority. We are also the appointed auditor of West Lothian Council and act as the LAN lead for the West Lothian Council SRA. The 2020/21 LAN process is underway and we will report any emerging risks to the IJB as appropriate.

### **Political uncertainty**

Continuing uncertainty exists around a number of political factors in the foreseeable future including:

- ▶ **EU withdrawal:** the UK formally exited the EU on 31 January 2020, and will be in a transition period until 31 December 2020. During this transition period, the UK will continue to apply EU laws but it will no longer be represented in the EU institutions. The negotiations on the future partnership between the EU and the UK commenced once the UK has left the EU.
- ▶ **Scotland Independence Referendum:** there is continued uncertainty regarding whether a Scottish independence referendum will be held.
- ▶ **Scottish Parliament Elections:** Scottish elections are due to be held on 6 May 2021.

We noted in 2018/19 that the IJB had worked well with partners to plan for the implications of EU withdrawal. We also note that there has been significant change in the make up of the Board, including changes at Chair and Chief Officer level. We will continue to review how the IJB prepares for, and responds to, the implications of political factors throughout the audit year.

## Accounts Commission Overview

The Accounts Commission (“the Commission”) published their Local Government in Scotland: Financial overview 2018/19 report in December 2019. Part 4 of this report provides an overview of the performance of integration joint boards in 2018/19.

The report notes that the overall pace of health and social care integration has been too slow and there has been limited evidence to suggest any significant shift in spending from health to social care.

Budget setting was another key areas of concern: overall, IJB budgets increased by 3% in 2018/19. However, a third of the IJBs had failed to agree a budget with their partners for the start of the 2019/20 financial year. They noted that for several IJBs, although the budgets were set on time, they still had an element of unidentified savings which meant that they were unbalanced at the start of the year.

Other key messages included:

- ▶ The identified budget gap reduced from £248 million (2.9% of total income) in 2018/19 to £208 million (2.5% of total income) for 2019/20.
- ▶ The majority of IJBs struggled to achieve break-even and 19 would have recorded a deficit without additional funding from partners at year end.
- ▶ A focus on long-term financial planning is required by IJBs to assist effective decision making, and to support long-term financial sustainability.
- ▶ Over a third of IJB senior staff have changed during 2018/19

Similarly, the Auditor General for Scotland produces an annual overview of the NHS in Scotland with the most recent report issued in October 2019. The report notes that the healthcare system faces increasing pressure from rising demand and costs, and it has difficulty meeting key waiting times standards. NHS boards now have a requirement to develop three-year financial and performance plans to enable them to more effectively plan how services will be delivered in the longer term. However, achieving financial sustainability still remains a major challenge for NHS boards.

The report makes a number of recommendations for the Scottish Government, NHS Boards and also integration authorities. The detail of these, within the context of the report, can be found at: [https://www审计scotland.gov.uk/uploads/docs/report/2019/nr\\_191024\\_nhs\\_overview.pdf](https://www审计scotland.gov.uk/uploads/docs/report/2019/nr_191024_nhs_overview.pdf)

As part of our work around the value for money dimension of wider scope, we will continue to review the IJB's performance in the context of the rest of the sector, including progress in shifting the balance of care and in delivering the transformation programme.

## **Budget setting process 2020/21**

The Government's budget announcement scheduled for the 6 November 2019 was cancelled due to the timing of the United Kingdom's general election.

As a consequence, the Scottish Government's Cabinet Secretary for Finance, Economy and Fair Work, in consultation with the Convenor of the Finance and Constitution Committee, postponed presentation of the Scottish Government's budget bill which was originally planned for 12 December 2019.

The Scottish Budget for 2020 to 2021 was published on 6 February 2020. This announcement indicates that health and care funding will rise to more than £15 billion for the first time.

The IJBs are dependent on agreeing budgets with their partners before the start of the year. Due to the delays in the Scottish Budget announcement, partner organisations will be delayed in agreeing their budgets. This is likely to lead to further challenges in IJBs budgets before the start of the financial year.

We will consider the IJB's approach to budget setting as part of our wider scope work on Financial Management in 2019/20.

## **Impact reporting**

As part of the 2019/20 wider scope audit work, we will review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations as appropriate.

We expect that the IJB will be requested to provide information during the 2019/20 audit year to support assessing the impact of the Children and Young People's Mental Health report (published in 2018) by May 2020.

# 3. Financial Statement Risks

## **Introduction**

The IJB's annual financial statements enables the IJB to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom.

## **Audit Opinion**

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the IJB as at 31 March 2020 and of its income and expenditure for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the IJB along with its financial statements.

## **Other Statutory Information**

During 2018/19, we highlighted the good practice guidance that Audit Scotland had released to support IJBs to improve the quality of the financial statements. The management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council. We will therefore continue to work with the Chief Finance Officer to support the improvement of the financial statements, including narrative disclosures, in 2019/20.

## **Audit Approach**

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the IJB, including assurances from the auditors of the constituent councils and health boards in respect of the controls in place and the amounts included in the IJB financial statements.
- ▶ Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit, Risk & Governance Committee reporting appropriately addresses matters communicated by us to the Audit, Risk and Governance Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.
- ▶ Maintaining auditor independence.
- ▶ Substantive tests of detail of transactions and amounts. For 2019/20 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

## **Materiality**

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss expectations regarding our detection of misstatements in the financial statements if required.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **Materiality Level**

<b>Planning Materiality £2.5 million</b>	<b>Planning materiality (PM)</b> - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2019/20 has been set at £2.5 million. This represents approximately 1% of the IJB's projected expenditure for the year.
<b>Tolerable Error £1.8 million</b>	<b>Tolerable error (TE)</b> - materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £1.8 million which represents 75% of planning materiality.
<b>Summary of Audit Differences £0.25 million</b>	<b>Summary of Audit Differences (SAD) Nominal amount</b> - the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have set it at £125,000 which represents 5% of planning materiality.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Based on these considerations, we apply lower materiality levels to the following areas we consider to be material by nature rather than size:

- ▶ Remuneration Report; and
- ▶ Related Party Transactions.

We will therefore review the disclosures related to the above areas in greater detail compared to the materiality thresholds outlined above.

# Significant Risks

We have set out one significant risk identified for the current year audit along with the rationale and expected audit approach. The risks identified may change to reflect any significant findings or subsequent issues we identify during the audit.

## Risk of fraud in expenditure recognition, including through management override of control

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

**Other than expenditure recognition, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.**

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

As a result of the nature of funding to the IJB from West Lothian Council or NHS Lothian, we rebut the assumed fraud risk in respect of the income.

For expenditure we associate the recognition risk to the completeness and occurrence of expenditure incurred by the IJB in commissioning services, and any associated creditor balances held by the IJB at yearend, in particular through management override of controls.

### Work we will perform:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ In particular we will challenge management around how the IJB gains assurance over the expenditure incurred by its partner bodies, so that it can account for the recognition of expenditure to those bodies.
- ▶ Substantively test income and expenditure transactions as appropriate and material, in particular in respect of any reserve funding held by the IJB.
- ▶ Obtaining supporting documentation through independent confirmations of the expenditure incurred by the IJB's partners and those bodies auditors, in line with the protocols set out by Audit Scotland for 2019/20 audits.
- ▶ Performing mandatory procedures including testing of all material journal entries and other adjustments in the preparation of the financial statements.
- ▶ We will report our findings in these areas within our 2019/20 Annual Audit Report.

## 4. Wider scope audit risks

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

We will include commentary within our Annual Audit Report on how the IJB demonstrates that it is meeting its Best Value duties.

The Code sets out the four dimension that comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money. The Accounts Commission has also set five strategic Audit Priorities that we will integrate into our 2019/20 work:

- ▶ Clear priorities with a focus on outcomes, supported by effective long term planning.
- ▶ Effective appraisal of options for changing how services are delivered in line with their priorities.
- ▶ Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.
- ▶ Empowering local communities and involving them in the design and delivery of local services and planning for their local area.
- ▶ Reporting on performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.

### Our procedures

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with specific significant risks relating to each dimension below.

Audit dimension	Significant risk	Work we will perform in 2019/20
<p><b>Financial sustainability:</b> 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.</p>	Continuing financial pressures	<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 in the 2018/19 annual audit report we noted it had identified an initial £26 million gap across all functions through this financial planning period. Taking into account savings identified to date over the same financial period a £7 million gap currently remains.</p> <p>While the service planning for the Council delivered IJB social care functions is more 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>We will consider the pace and extent of progress by the IJB to address overall financial sustainability as part of our audit work, including the IJB's achievement of planned savings.</p>

Audit dimension	Significant risk	Work we will perform in 2019/20
<p><b>Financial management:</b> 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.</p>	<p>No specific additional audit focus</p>	<p>In our 2018/19 annual audit report we concluded that financial pressures on the IJB's budget were consistently reported by management through the financial year, and overall we were satisfied that the core financial management arrangements established by the IJB are adequate for the current management of its financial activities.</p> <p>We will continue to review the outturn position against the forecasts produced during the year to inform our view on the robustness of financial management and monitoring information. We will also consider management's actions in addressing our recommendation in relation to updating its reserves policy to align with its most recent MTFP and changes to the integration scheme and scheme of delegation.</p>
<p><b>Governance and transparency:</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>No specific additional audit focus</p>	<p>In our 2018/19 annual audit report we concluded that overall the IJB has established a sound basis to demonstrate good governance and transparency in its operational activity. In the prior year internal audit has concluded that "the framework of governance, risk management and control is generally sound".</p> <p>While the IJB demonstrated progress in implementing improvements to existing governance procedures in 2018/19 we noted a number of recommendations around governance improvements dating back to 2017 remained in progress. The IJB has also continued to consider its approach to risk management, with the risk register considered regularly by the Audit, Risk and Governance committee. As part of our prior year reporting we shared some areas for consideration around risk management and will follow up with management to assess progress around continuous improvement in this area.</p> <p>Our audit strategy for 2019/20 will consider:</p> <ul style="list-style-type: none"> <li>▶ Can the IJB demonstrate that the governance arrangements are appropriate and operating effectively, particularly in light of changes to key personnel including the Chief Officer, Chair and Vice Chair of the IJB;</li> <li>▶ Is there effective scrutiny, challenge and transparency on decision making and financial and performance reports?;</li> <li>▶ Is the Annual Governance Statement complete and does it reflect key findings from audit, scrutiny and inspection?</li> <li>▶ Can the IJB demonstrate adequate progress against audit recommendations?</li> </ul>

Audit dimension	Significant risk	Work we will perform in 2019/20
<p><b>Value for money:</b> 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.</p> <p>This also relates to assessing the IJB's arrangements for securing Best Value.</p>	<p>No specific additional audit focus</p>	<p>In 2018/19, we concluded that the IJB had arrangements in place to consider its performance in the year and its compliance with the best value framework. The IJB's Annual Performance Report was published by 31 July 2019 in line with the requirements of legislation. The report highlighted key areas of investment and the IJB's performance against its strategic plan outcomes. The report also highlighted ongoing pressures in delivery around delayed discharges.</p> <p>In July 2019, NHS Lothian was placed on the Scottish Government's Performance Escalation Framework (Level 3: significant variation from plan). NHS Lothian has adopted a collaborative whole system approach to the development and implementation of a recovery plan. A joint approach is therefore in place with each of NHS Lothian's IJBs and three pan-Lothian programme boards have been established to facilitate implementation and monitoring of the recovery plans:</p> <ul style="list-style-type: none"> <li>▶ Unscheduled care and delayed discharges;</li> <li>▶ Scheduled care and cancer waiting times; and</li> <li>▶ Mental health and learning disabilities.</li> </ul> <p>The four Lothian IJB Chief Officers are members of the Recovery Plan Oversight Group, along with the NHS Lothian Executive Team and performance support from the Scottish Government.</p> <p>The recovery plan will therefore form a core area of our assessment against guidance issued by Audit Scotland in March 2018, Auditing Best Value - Integration Joint Boards, including consideration of:</p> <ul style="list-style-type: none"> <li>▶ How the IJB is demonstrating the impact of integration;</li> <li>▶ The effectiveness of plans in improving the outcomes for local people;</li> <li>▶ How the integration partners are working together to deliver integration reform; and</li> <li>▶ The overall pace and scale of change.</li> </ul> <p>We will also review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations, such as reports from the Care Inspectorate.</p>



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit, Risk & Governance Committee

D - Timing and deliverables of the audit

E - Audit fees

F - Additional audit information

# 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 Report

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"><li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li><li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li><li>▶ The overall assessment of threats and safeguards;</li><li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li><li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</li></ul>	<ul style="list-style-type: none"><li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li><li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li><li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li><li>▶ Written confirmation that all covered persons are independent;</li><li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li><li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li><li>▶ An opportunity to discuss auditor independence issues.</li></ul>

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.

# Appendix C: Required Communications

Required communication	Our reporting to you
<b>Terms of engagement / Our responsibilities</b>  Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.  Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice
<b>Planning and audit approach</b>  Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
<b>Significant findings from the audit</b>  <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>	Annual Audit Plan Annual Audit Report
<b>Going concern</b>  Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  <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>	Annual Audit Report
<b>Misstatements</b>  <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>	Annual Audit Report
<b>Fraud</b>  <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit 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>	Annual Audit Report
<b>Consideration of laws and regulations</b>  <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 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 Committee may be aware of</li> </ul>	Annual Audit Report or as occurring if material.

Required communication	Our reporting to you
<b>Related parties</b>	Annual Audit Report or as occurring if material.
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	
<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>	
<b>Independence</b>	Annual Audit Plan
Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence	Annual Audit Report
Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:	
<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>	
<b>Internal controls</b>	Annual Audit Report
Significant deficiencies in internal controls identified during the audit	
<b>Representations</b>	Annual Audit Report
We will request written representations from management and/or those charged with governance.	
<b>Subsequent events</b>	Annual Audit Report
Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	
<b>Material inconsistencies and misstatements</b>	Annual Audit Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	
<b>Fee Reporting</b>	
<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Annual Audit Plan Annual Audit Report

# Appendix D: 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 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"><li>▶ Audit planning; setting scope and strategy for the 2019/20 audit</li><li>▶ LAN meetings held with other scrutiny partners</li></ul>	Annual Audit Plan	March 2020
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>	Impact report: Children and Young People's Mental Health	May 2020
JUN			
JUL	<ul style="list-style-type: none"><li>▶ Year-end substantive audit fieldwork on unaudited financial statements</li></ul>	Audit clearance meeting	August 2020
AUG	<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	September 2020
SEP			

# Appendix E: Audit fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on '*Our Approach to setting audit fees*' ([http://www.audit-scotland.gov.uk/uploads/docs/um/audit\\_fee\\_approach.pdf](http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf)).

Audit Fees	2019/20	2018/19
<b>Component of fee:</b>		
Auditor remuneration - expected fee	£18,300	£17,200
Audit Scotland fixed charges:		
Pooled costs	£1,790	£1,670
Performance audit and best value	£5,360	£5,050
Audit support costs	£1,110	£1,080
<b>Total fee</b>	<b>£26,560</b>	<b>£25,000</b>

The expected fee for each body, which for 2019/20 has been set centrally by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

Should any of these circumstances not be in place throughout the audit, it is expected that additional costs will be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland. Under this process, fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, or more with the approval of Audit Scotland.

# Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

## Our responsibilities required by auditing standards

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the going concern basis of accounting.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Read other information contained in the financial statements, the Audit, Risk & Governance Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## Audit Quality Framework / Annual Audit Quality Report

Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [www. https://www.audit-scotland.gov.uk/uploads/docs/report/2019/as\\_audit\\_quality\\_1819.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/as_audit_quality_1819.pdf).

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report:

[https://www.ey.com/en\\_uk/who-we-are/transparency-report-2019](https://www.ey.com/en_uk/who-we-are/transparency-report-2019)

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