



Midlothian Integration Joint Board

**Annual Audit Report to Members
and the Controller of Audit - year
ended 31 March 2020**

16 September 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 Midlothian Integration Joint Board (the IJB) for financial years 2016/17 to 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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Executive Summary: Key Conclusions from our 2019/20 audit

We have issued an unqualified audit opinion on the IJB's 2019/20 financial statements

We updated our risk assessment in response to the global pandemic, and as a result placed additional focus on:

- ▶ the adequacy of the IJB's disclosures in relation to the pandemic; and
- ▶ management's assessment of going concern.

Financial Statements

We have concluded our audit of the IJB's financial statements for the year ended 31 March 2020. No audit adjustments were required to be made and there are no unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were of a good quality. We worked with the Chief Finance Officer to make improvements to the Management Commentary and notes to the financial statements to reflect the implications of the Covid-19 global pandemic on the financial statements, and the IJB's planning processes.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

Going Concern

Management is required to conclude on the going concern basis of preparation in the financial statements. As a result of the unprecedented financial and operational pressures faced by the IJB to respond to Covid-19, we placed additional emphasis on management's assessment of going concern, and particularly the need to report on the impact of financial pressures on the IJB and its financial sustainability going forward.

We note that the IJB has submitted regular mobilisation plans to the Scottish Government to estimate the financial impact of Covid-19, which reflect the impact of the pandemic on the delivery of services and the additional costs associated with Covid-19. Key areas of additional spend include:

- ▶ staffing costs to provide cover for front-line staff sickness, self-isolation and shielding;
- ▶ additional beds in the community hospital to support patient care; and
- ▶ prescribing and sustainability payments to external providers.

Under the Integration Scheme, the financial costs and therefore key financial risks remain with the IJB's partners, NHS Lothian and Midlothian Council. We were therefore satisfied that the IJB remains a going concern, but consider the related risks to the delivery of the IJB's Strategic Plan within our wider scope assessment of Financial Sustainability.

Wider Scope and Best Value

We summarise the conclusion we reached in response to our work on the wider scope dimensions below.

We drew upon our wider scope work to conclude on the IJB's approach to Best Value. We note that the IJB has a number of key characteristics of Best Value in place, including effective partnership working and robust governance arrangements.

A planned self assessment against the Audit Scotland's Best Value guidance for IJBs was delayed as a result of the global pandemic, and will be addressed in 2020/21. In our view, until this is in place, the IJB cannot fully demonstrate that it meets its Best Value responsibilities.

Financial Sustainability

The impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners, including an estimated additional 1% budget gap. As a result, a refreshed Financial Strategy will be prepared in 2020/21. Financial pressures of this scale require either financial support from partners or the Scottish Government, or the re-prioritisation of services provided. The ability of partners to respond to the Strategic Plan, and specific Directions, will therefore determine the success of integration in Midlothian.

RED

Governance and Transparency

The key features of good governance at the IJB are in place and operating effectively. The IJB responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. We were satisfied that Board members had access to key information as a result of the continuance of virtual meetings, and weekly briefings. The IJB has continued to develop arrangements to support improved integration and partnership working.

GREEN

Financial Management

The IJB delivered a £0.7 million underspend against budget in 2019/20. The IJB's reserve balances now total £4.4 million, of which £1.4 million has been earmarked for committed projects.

We noted improvements to financial reporting during 2019/20 but that the IJB continues to report overspends against key budgets, including Learning Disabilities and Community Hospitals.

GREEN

Value for Money

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

The Annual Performance Report highlights a number of areas of improvement, but some key indicators, including delayed discharges, remain below the national average.

AMBER

Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the IJB by at least 12 months, to 2021/22.

Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Integration Joint Board (“the IJB”). Our appointment term has been extended by a further 12 months, to financial year 2021/22. 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 the key findings and conclusions from our audit work. It is addressed to both members of the IJB and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

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

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

Our independence

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

Scope and Responsibilities

The Code sets out the responsibilities of both the IJB and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Audit and Risk Committee on 5 March 2020.

The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in February 2020, and presented our Annual Audit Plan to the IJB's Audit and Risk Committee, before the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements. We recognise that the pandemic has had a profound impact on the IJB, and on partner staff who deliver frontline services. As a result, we revisited our planning assessments for the 2019/20 audit.

The impact occurred late in the financial year, and as a result the financial results were in line with our expectations. There were no additional transaction streams before 31 March 2020 that would require new accounting policies or treatments.

The IJB has worked with partners and the Scottish Government to identify additional costs as a result of the pandemic within mobilisation plans. However, there was no material spike in activity prior to 31 March 2020. As a result of our assessment we have not identified any new financial statement risks. There are, however, a number of areas of the financial statements that have been impacted by Covid-19, including:

- ▶ **Governance Statement:** The IJB and its partners moved to critical service delivery in March 2020 at the commencement of the lockdown. The governance statement captures how the control environment changed during the period and what steps were taken to maintain a robust control environment during the disruption.
- ▶ **Disclosures and estimates:** Additional disclosures were required throughout the financial statements, including the management commentary, to reflect the additional risks facing the IJB and how these have impacted the key judgements and estimates made in preparation of the financial statements. These include disclosures on significant events after the balance sheet date.
- ▶ **Going concern:** In accordance with the CIPFA Code of Local Government Accounting, the IJB should prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. Covid-19 has created increased financial pressures throughout the public sector. Uncertainty remains about the level of financial support that may become available from the Scottish Government to reflect the financial consequences. In light of this, the audit placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements. The results of this assessment are reported in Section 2 on page 13.

The ongoing disruption to the delivery of health and social care as a result of the Covid-19 has a pervasive impact upon the financial statements.

The financial statements have been updated to reflect the impact of Covid-19 on the IJB's financial position and performance.

Adaption to remote working

Our audit fieldwork was completed remotely as a result of the Scottish Government's lockdown restrictions. There were two key impacts:

- ▶ Additional work was required to assess the format of evidence provided and where necessary, procedures were performed to validate the authenticity of evidence.
- ▶ All contact with the Chief Finance Officer was conducted via virtual meetings. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £1.4 million. We have considered whether any change to our materiality was required in light of Covid-19 and we remain satisfied that the materiality values reported within our Annual Audit Plan remain appropriate.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. 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.

We remain satisfied that the values reported in our Audit Planning Report for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

Overall Materiality

Tolerable Error

Nominal amount

£1.4 million

£1 million

£70,000

2% of the IJB's net expenditure

Materiality at an individual account level

Level that we will report to committee

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

Financial statement audit

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

- ▶ whether they give a true and fair view of the financial position of the IJB as at 31 March 2020 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

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

Wider Scope audit

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

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

Our findings are summarised in Section 3 of this report.

Best Value

Our Annual Audit Plan outlined a requirement to comment on how effectively the IJB demonstrates that it meets its Best Value responsibilities to the Board. 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 outline our findings and assessment for 2020/21 on page 26.

Our Plan also noted that we would consider the IJB's arrangements against guidance issued by Audit Scotland, *Auditing Best Value - Integration Joint Boards (March 2018)*. In light of the IJB's focus on responding to and recovery from the pandemic, we have elected to delay our work in this area until 2020/21, to allow us to draw upon the IJB's self-assessment.

We are also required to draw upon our wider scope work to conclude on the extent to which the IJB can demonstrate and evidence the achievement of Best Value. Our findings are summarised in Section 3 of this report.

Financial Statements audit

Introduction

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

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

The plan highlighted one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls. This assessment was not changed as a result of the impact of Covid-19.

Compliance with Regulation

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. Schedule 6 of the Coronavirus (Scotland) Act 2020 allowed the IJB to postpone submitting the unaudited financial statements to auditors and publishing the audited financial statements until it was reasonably practicable to do so. No delay was necessary for the IJB, and we received the unaudited financial statements on 11 June 2020, in line with planned timescales.

The inspection notice was published by Midlothian Council on the IJB's behalf on 17 June 2020, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

Audit Outcomes

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

The Regulations were amended to allow the IJB to delay preparation of the financial statements. However, the draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

Our audit opinion

Element of opinion

Basis of our opinion

Conclusions

<p>Financial statements</p> <ul style="list-style-type: none"> ▶ Truth and fairness of the state of affairs of the IJB at 31 March 2020 and its expenditure and income for the year then ended ▶ Financial statements in accordance with the relevant financial reporting framework 	<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 2019/20 financial statements for the IJB.</p>
<p>Going concern</p> <ul style="list-style-type: none"> ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting 	<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>In accordance with the work reported on page 13, we have no matters to report.</p>
<p>Other information</p> <ul style="list-style-type: none"> ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit 	<p>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> ▶ Review of committee and board minutes and papers, regular discussions with management, our understanding of the IJB and the wider sector. ▶ Audit Scotland's <i>Improving the Quality of Local Government Annual Accounts: Integration Joint Boards Good Practice Note</i>. 	<p>We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> ▶ Audited part of remuneration report has been properly prepared. ▶ Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared. 	<p>Our procedures include:</p> <ul style="list-style-type: none"> ▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records, including to the underlying partner's accounting records. ▶ Reviewing the content of narrative disclosures to information known to us. ▶ Our assessment of the Annual Governance Statement against the Delivering Good Governance Code. 	<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"> ▶ there has been a failure to achieve a prescribed financial objective, ▶ adequate accounting records have been kept, ▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or ▶ we have not received the information we require. 	<p>We have no matters to report.</p>

Significant and fraud audit risks

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

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

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

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2019/20 our work included:

- ▶ We challenged management on how the IJB gains assurance over the expenditure it incurs and the basis of payments it makes to its partner bodies to deliver commissioned services. Management present financial information to the IJB that clarifies the source of information provided by each of the IJB partners. Reports to the IJB at the year end also made clear that the year end outturn represented the approval by the IJB of the final expenditure incurred in commissioning services from Midlothian Council and NHS Lothian.
- ▶ Review of additional revenue streams and cut off testing for additional income received as a result of the Covid-19 outbreak.
- ▶ As part of the year end process, the IJB obtained confirmation statements from the senior finance professionals at NHS Lothian and Midlothian Council of the spend by the respective bodies on delivering services, and hence their request for payment from the IJB to cover those costs. We obtained a copy of those confirmations and agreed figures within the financial statement to source documentation.
- ▶ We obtained independent confirmation from the appointed auditor at both Midlothian Council and NHS Lothian of the income and expenditure transactions recorded at their respective audited bodies. The confirmations agreed the income and expenditure amounts transacted in the year.

Risk of management override

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

Risk of Fraud

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

Testing on Journal Entries

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

Judgements and Estimates

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

Accounting Policies

- ▶ We 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. There were no significant accounting practices which materially depart from what is acceptable under IFRS or the Code.

Our conclusions

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

Going concern

In accordance with the CIPFA Code of Practice on Local Government Accounting, the IJB prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. CIPFA bulletin 05 (closure of the 2019/20 financial statements) states that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting has not changed.

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the IJB and its financial sustainability going forward. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements, including the expected impact on the Five Year Financial Plan.

The IJB's funding from and commissioning of services to partners has been confirmed for 2020/21, and a medium term financial plan has been prepared through to 2024. Work is ongoing with partners to refine the mobilisation plan prepared by the IJB at the request of the Scottish Government to quantify the financial impact of Covid-19 on the IJB in the immediate and medium term period. While there remains uncertainty about the level of Scottish Government funding in relation to Covid-19 additional costs, ultimately any costs will be met by the IJB's partners in line with the terms of the Integration Scheme.

The Integration Scheme sets out the process to be followed should the IJB overspend against the agreed budget. The Chief Finance Officer is expected to manage the budget to ensure that there are no overspends. Where an unexpected overspend is likely, the Chief Finance Officer should agree corrective action to mitigate the overspend. Where this does not resolve the gap, agreement must be made between the partners, to agree a recovery plan to balance the budget. Where this is unsuccessful and the IJB overspends at the year end, partners provide a voluntary additional one-off payment to reflect the level of overspend.

The IJB has therefore concluded that there are no material uncertainties around its going concern status.

Our conclusions

- ▶ We are satisfied that the IJB remains a going concern.
- ▶ We challenged management on the adequacy of some of the disclosures in relation to going concern and the expected medium term impact of Covid-19, and a number of improved disclosures were made to the financial statements.

Best Value and Wider Scope dimensions

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.

Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the IJB's arrangements for the four wider scope audit dimensions, and draw upon these assessments to form conclusions on the IJB's ability to demonstrate Best Value in its activities.

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

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 Sustainability

Our Annual Audit Plan identified a significant risk in relation to continued financial and demographic pressures. The impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners, including an estimated additional 1% budget gap. As a result, a refreshed Financial Plan will be prepared in 2020/21. Financial pressures of this scale require either financial support from partners or the Scottish Government, or the re-prioritisation of services provided. The ability of partners to respond to the Strategic Plan, and specific Directions, will therefore determine the success of integration in Midlothian.

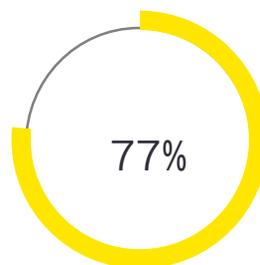
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Recommendation 1:
The unprecedented level of financial pressure caused by Covid-19 means that transformation to service design and delivery must be achieved as planned.

Medium Term Financial Planning

The IJB approved the 2019/20 budget at its meeting in April 2019. The budget recognised a financial gap of £3 million. As a result, a transformation programme was developed with health and social care partners to deliver planned savings of £2.2 million in 2019/20. As Exhibit 1, below, highlights, £1.65 million (77%) of savings were delivered, and as a result, the IJB continued to rely on non-recurrent additional funding to deliver a surplus in 2019/20. Planned transformation work within social care on Homecare, Learning Disabilities and transport were not delivered as planned. The IJB relies on the achievement of planned transformation programmes to deliver the vision established within the Strategic Plan.

Exhibit 1: Planned transformational savings within social care were not delivered in full



Source: Midlothian IJB Savings achieved in 2019/20

As part of the budgeting process, NHS Lothian and Midlothian Council provide indicative budgets for a five year period to allow the IJB to plan in the longer term. The most recent Five Year Financial Plan was presented to the IJB in June 2019. Significant budget gaps were identified for each year of the plan, rising to £10.8 million in 2023/24. The cost and service impact of Covid-19 have added further, significant financial pressures to the financial plan.

Midlothian Recovery Plan

As the Board responsible for key front line services to some of the most vulnerable sections of the community, Covid-19 had an immediate and significant impact on the way that services were delivered.

The IJB has begun the process of finalising its recovery plan, based on the Midlothian HSCP COVID-19 Response and the COVID-19 Response Strategic Plan. The Recovery Plan includes assessing the changes needed to the Financial Plan, and the impact on the IJB's Strategic Plan 2019-22 and key objectives. The Recovery Plan is wide-ranging, and includes:

- ▶ Reassessing investment decisions in light of the learning from the response to Covid-19; and
- ▶ Capitalising on the opportunities made possible, including the promotion of self-management of conditions, the pace in the use of technology and the relationship between primary and secondary care.

The IJB has committed to a review of the lessons learned from the crisis in Midlothian, including the benefits of the community planning partnership approach. The IJB has also acknowledged the heavy impact of Midlothian Covid-19 deaths within care home settings, and will assess the factors to learn from.

Mobilisation Plan

As part of the Scottish Government's response to Covid-19, the IJB has worked with partners to submit mobilisation plans, outlining the immediate and medium term financial impact. The first mobilisation plan was submitted in April 2020, and outlined additional costs in the region of £5.3 million in 2020/21. Routine submissions are provided to the Scottish Government to reflect the wider costs and impact on operational services across the IJB.

The mobilisation plans will be subject to further refinement locally, and benchmarking at national level, to ensure that a core set of assumptions is in place in relation to the duration and financial impact of the virus. While the Cabinet Secretary has approved the mobilisation plan in principle, the funding received to date falls short of the estimated impact. Initial funding received to date is £1.230 million. The IJB has therefore focused on reviewing all expenditure to assess where funding can be repurposed to support the additional costs from this emerging challenge.

Recommendation 2:
The IJB must revise and update the 5 Year Financial Plan as part of its Covid-19 Recovery Plan.

While the IJB will develop a refreshed Financial Plan during 2020/21, there are a number of other uncertainties that may impact financial planning, including:

- ▶ the impact of EU withdrawal, particularly on the cost of medicines and the social care sector workforce;
- ▶ significant financial pressures facing partner bodies; and
- ▶ the sustainability of the private care provider market in light of the challenge presented by the pandemic.

While we do not underestimate the level of work required to assess the full effect of the global pandemic on the IJB's financial, operational and strategic plans, it is vital that the IJB works with partners to update the 5 Year Financial Plan.

Financial Management



The IJB delivered a £0.7 million underspend against budget in 2019/20. The IJB's reserve balances now total £4.6 million, of which £1.6 million has been earmarked for committed projects.

The IJB continued to record overspends within key budgets such as Learning Disabilities and Community Hospitals. We note that the IJB has established a Finance and Performance Review Group to provide additional insight on forecasts and savings plans. This Group will provide early warning and challenge for the delivery of savings plans.

Financial Outturn

As Exhibit 1 below highlights, the IJB reported a surplus in the cost of delivering services of £0.743 million in 2019/20 (2018/19: surplus of £2.98 million).

Exhibit 1: The IJB delivered underspends in health services during 2019/20

	Income £'000	Expenditure £'000	Surplus £'000
Health Services	107,282	106,473	809
Social Care Services	42,593	42,659	(66)
Total	149,876	149,132	743

Source: Midlothian IJB 2019/20 Financial Statements

While, in common with prior years, there were overspends in the Learning Disabilities budget (£2.617 million) and Community Hospitals (£108,000), these were offset by a number of underspends including:

- ▶ £1.7 million related to services for older people; and
- ▶ additional resources (Social Care Fund) that the Scottish Government has directed to the IJB to support the delivery of social care services.

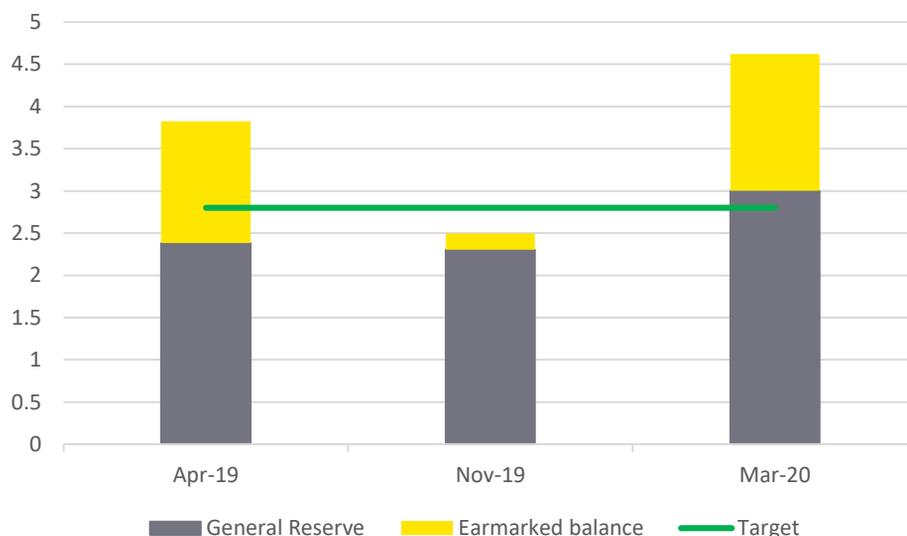
The set aside budget, managed by NHS Lothian, recorded an overspend of £378,000. Set aside represents the services that are provided by acute services for people across Lothian, including accident and emergency, general and geriatric medicine and cardiology. Services provided by NHS Lothian are provided on a pan-Lothian basis and a health budget setting model is currently in place, agreed by each of the IJBs in the areas. Expenditure reflects Midlothian IJB's share of the actual costs of the service, and are principally related to additional bank and agency nursing to cover sickness absence throughout the financial year.

Due to the timing of the pandemic in the UK, we noted minimal variation in expenditure during 2019/20, although the GP prescribing spend was higher than forecast in March 2020, resulting in a small overspend of £63,000.

Financial monitoring

The IJB prepares its financial statement and budget monitoring reports by consolidating financial data from its partners, Midlothian Council and NHS Lothian. The IJB receive a financial update report each quarter. Information is provided at a high level, with supporting commentary on key areas of movement. As Exhibit 2, below, notes the IJB's financial performance improved as budgets clarified throughout the financial year.

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



Source: Midlothian IJB Financial Monitoring reports 2019/20

As a result of the underspend, the IJB was able to add to its reserves in 2019/20. During 2019/20, the IJB took the opportunity to review its Reserves Strategy to ensure that it continues to reflect the risk profile and priorities of the organisation. The IJB considered that a Reserves Strategy of 2% of expenditure (around £2.8 million) continued to be appropriate. As Exhibit 2 highlights, the IJB was able to achieve the target level in 2019/20, but this should continue to be reviewed in light of any lessons learned from the response to Covid-19.

Finance and Performance Review Group

During 2019/20, the IJB's Health and Social Care Partnership established a Finance and Performance Review Group to provide additional focus on savings and transformation plans with the partner organisations. Two sub-groups are in place, to provide additional insight on:

- ▶ Contracts and commissioning; and
- ▶ Capital planning.

The Group considers key areas of overspend, such as the Learning Disabilities service as a standing item on the agenda. Prior to the global pandemic the Group met on a monthly basis. As part of the IJB's recovery and remobilisation plans, the Group will provide additional financial insight to mobilisation plans and will continue to monitor delivery against transformational savings plans.

Governance and Transparency

The key features of good governance at the IJB are in place and operating effectively. The IJB responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. We were satisfied that Board members have access to sufficient information as a result of the continuance of virtual meetings, and weekly briefings to all members.

The IJB has continued to develop arrangements to support improved integration and partnership working. The Integration Scheme is expected to be revised and adopted within 2020.

Local Code of Corporate Governance

The IJB's Local Code of Corporate Governance was approved by the IJB in June 2019, and draws upon the self-assessment assurance process led by internal audit to develop the Annual Governance Statement (AGS).

The IJB's AGS reports on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2020/21, including:

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

We reviewed the AGS against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. As part of the audit process we did, however, work with management to improve the disclosure of how governance arrangements were maintained during the revised operating arrangements as a result of Covid-19.

Covid-19 Governance Arrangements

Like all other public bodies in Scotland, the IJB moved to revised governance arrangements at the beginning of the UK lockdown period. The IJB considered a report on emergency recess arrangements at its first virtual meeting, held on 16 April 2020. The voting members of the IJB have continued to meet virtually throughout the crisis, and a weekly update has been provided to all IJB members providing key information and developments to ensure that all members remain well informed.

Key officers from the Midlothian Health and Social Care Partnership (HSCP) team are members of the Gold Command CMT NHS Lothian weekly meetings, as well as Midlothian Council CMT meetings. The Midlothian Chief Officer chairs the Lothian tactical HSCP group which meets on a twice weekly basis. In addition, we noted that the Midlothian approach, to draw upon existing community planning partnership arrangements, meant that information was shared in a co-ordinated response. While Scottish Government guidance issued in May 2020 meant that NHS Boards assumed accountability and responsibility for care governance across all care homes, we were satisfied that key information was disseminated to IJB Board members on a timely basis.

Governance arrangements were quickly developed to ensure that the IJB was kept informed of the impact of Covid-19. We were therefore satisfied that Board members had sufficient information to continue to fulfil their role.

Assurance Statement

The IJB's Chief Internal Auditor produces an annual opinion on the adequacy and effectiveness of the IJB's framework of governance, risk management and control. The conclusion for 2019/20 notes that:

The Chief Internal Auditor has concluded that governance arrangements are adequate and that improvements have been made during 2019/20.

"My opinion is that, based on our reviews, risk assessments and knowledge, the MIJB's governance arrangements, risk management and systems of internal control are adequate. Improvements have been made by Management during the year. The MIJB operates under good public sector practice governance arrangements through its Board and Committee meetings that support scrutiny and transparency of decisions made. There is good compliance by the MIJB of the requirements of the Public Bodies (Scotland) Act 2014 and the guidance through its Directions to Partners (NHS Lothian and Midlothian Council) for the delivery of the services. The vision, strategic objectives and outcomes are reflected in the MIJB Strategic Plan 2019-2022. The MIJB is making continued progress towards delivering integrated Health and Social Care services but has considerably more to do, in common with other IJBs."

Audit and Risk Committee

The Audit and Risk Committee scheduled to occur in June 2020 was cancelled as a result of the emergency governance arrangements. The key business scheduled for the Committee, including consideration of the draft financial statements and annual governance statement, was fulfilled by a virtual meeting of the IJB.

During the year, the committee conducted a self assessment of its effectiveness and noted a number of areas where improvements were required to better understand assurance arrangements in place at partner organisations, in areas such as:

- ▶ The achievement of value for money; and
- ▶ Arrangements to prevent and detect fraud and irregularity.

Good Practice: Recruitment of Independent Member

In 2019, the IJB's independent audit committee member signalled their intention to step down. The IJB commenced a formal recruitment process in October 2019.

A Selection Panel for the purpose of interviewing and selecting a person as independent member of the IJB Audit and Risk Committee was established, comprising the Chair and one other member of the IJB Audit and Risk Committee, advised by the IJB Chief Internal Auditor. As a result, a new independent member has been recruited for a fixed period to 31 October 2022. We consider this to be good practice, particularly for developing organisations such as IJBs.

Source: Midlothian IJB 2019/20

Self Assessment 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 integration. The IJB conducted a self assessment against the six features that support integration were identified in May 2019, which noted two key areas for improvement action:

- ▶ the strategic planning processes; and
- ▶ ensuring that funding loses its identity as it becomes part of the IJB.

In December 2019, the IJB considered a request to conduct a self assessment of the maturity of the Midlothian HSCP in relation to integrated care. The HSCP was invited by NHS National Services Scotland to participate in the Scirocco Exchange Programme, which is an EU Funded Health programme aimed at knowledge transfer. As a result, the 2020/21 Directions included a requirement for partners to participate in the programme, with specific deadlines including:

- ▶ The collaborative leadership model should be progressed by July 2020.
- ▶ The Partnership should take opportunities for self-evaluation and improvement planning - for example Scirocco Knowledge Exchange Programme.
- ▶ Meaningful and sustained engagement with local communities and/or service users should be pursued.
- ▶ Work should progress to better capture the impact of the Partnership's integration arrangements on outcomes for local people and on the wider health and social care system by March 2021.

While we understand that deadlines will be impacted by the Covid-19 response, we note that this work is intended to support the progression and maturity of integration in Midlothian.

Integration scheme review

Legislation requires that the Integration Scheme which governs the operations of the IJB is reviewed by the partners at least every five years. A review was scheduled to have been concluded by June 2020, and had begun at March 2020, with the board being a formal consultee. Due to the impact of Covid-19 the review has not been completed with Council and NHS resources prioritised for addressing the pandemic. The current Integration Scheme will remain in place until the review process is completed and changes are approved by Scottish Ministers. Management has determined that IJB operations will not be affected in the short-term and will continue under the current Integration Scheme. While the significant ongoing uncertainty around the implications of Covid-19 make timetabling the review challenging, it is expected that the review will be revisited by the partners by the end of 2020. The board's participation as a consultee is a key matter to be addressed in 2020/21.

Value for Money

The IJB's Chief Internal Auditor notes that the Strategic Plan is not yet fully supported by a Performance Management Framework. The Board receives performance reports on progress against improvement goals at each meeting. This includes exception reporting and comparative data against the rest of Scotland.

The Annual Performance Report 2019/20 highlights a number of areas of improvement, but some key indicators, including delayed discharges, remain below the national average.

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Performance Reporting

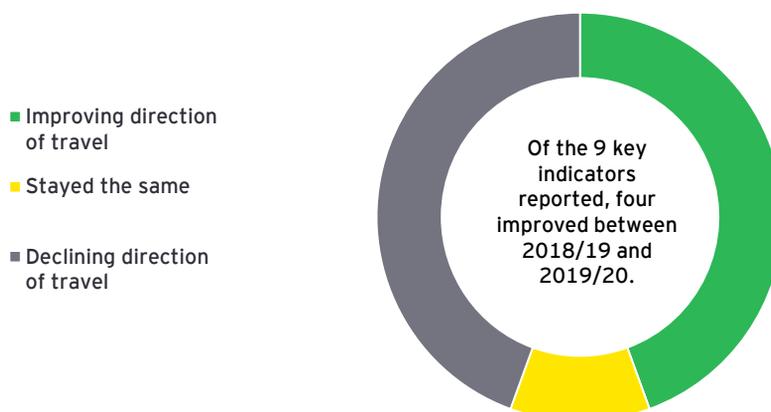
The IJB receives performance reports against IJB Improvement goals progress. Since December 2019, these reports have included benchmarking information from other IJBs in Scotland to allow the IJB members to form a view on performance in comparison to others. This includes exception reporting to provide context to the Board, along with planned mitigating actions. In addition, the IJB's Strategic Planning Group provides operational oversight over performance and the key contributory factors.

Despite the difficulties caused by Covid-19, the IJB was able to publish its Annual Performance Report in July 2020, in line with original timescales. The report highlighted a number of areas where significant progress has been made, including:

- ▶ The creation of a winter frailty team to support 3 GP practices. The team includes a GP, Occupational Therapist, District nurse and Local Area Coordinator from the Red Cross.
- ▶ Partnership work with Midlothian Council's Housing Services, including occupational therapy training for front line workers to support suitable, accessible housing, and continued work on a programme of housing developments designed to meet the needs of people with a Learning Disability.
- ▶ The development of online GP consultations to allow phone lines and appointments to be prioritised for vulnerable patients.

As Exhibit 3 demonstrates, for the indicators that the IJB was able to report in July 2020, performance remained mixed. While improvements were noted against key indicators such as delayed discharge levels, performance remains lower than the national average. Further analysis within the Annual Report highlights significantly variations in performance between the East and West localities.

Exhibit 3: Performance against key indicators improved overall in 2019/20



Use of resources

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

While the financial monitoring reports that the IJB considered in 2019/20 continued to be presented at a high level, we are content that this reflects the strategic nature of the IJB's role. Improvements have been made to the financial reports to provide:

- ▶ Forecast outturns for social care and health spend;
- ▶ Forecast reserves position; and
- ▶ Updates against the transformation programme, including a RAG status on the likelihood of savings being achieved in full.

We also note that the IJB drew upon options appraisal in 2019/20 to provide Board members with clear information on the financial and service impact of decision making, such as the proposed use of the vacated Glenlee and Rossbank wards at Midlothian Community Hospital.

Good Practice: Use of Option Appraisal in Decision Making

Due to a change in practice by East Lothian IJB, the IJB identified an opportunity to secure alternative use for 16 beds available within the Midlothian Community Hospital Glenlee and Rossbank wards. The Board was asked to consider two options for the alternative use, a Step up / step down facility or chemotherapy/infusions beds.

The options appraisal presented to the Board included impact assessments against:

- ▶ The IJB's Strategic Plan, and the Directions that would be impacted;
- ▶ The resource implications, including workforce and financial;
- ▶ An equalities impact assessment; and
- ▶ The impact on the risk register.

The options appraisal paper also outlined the stakeholder engagement that would be fulfilled as part of the development of the preferred option.

Source: Midlothian IJB, March 2020

Best Value: Our assessment

We have drawn upon our wider scope work to conclude on the IJB's approach to Best Value. We note that the Board has a number of key characteristics of Best Value in place, including effective partnership working and robust governance arrangements. However, in our view, the IJB does not yet have a framework in place to allow it to demonstrate to the Board that Best Value is being achieved.

A planned self assessment against the Audit Scotland's Best Value guidance for IJBs was delayed as a result of the global pandemic, and will be addressed in 2020/21. This will be a key step to allow the IJB to demonstrate that it meets Best Value responsibilities to the Board.

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Forming our judgement

As auditors to the IJB, we are required to comment on how effectively, in our view, the IJB demonstrates that it meets its Best Value responsibilities to the Board. In forming this judgement, we have drawn upon the work conducted in response to our wider scope responsibilities, and specifically:

- ▶ Our consideration of the IJB's financial planning processes;
- ▶ Governance arrangements, including monitoring reports on the use of resources and scrutiny arrangements;
- ▶ Our assessment of performance reporting to the Board, and to the public via the Annual Performance Report;
- ▶ The IJB's self-assessment arrangements, including review of its effectiveness and improvement plan against Audit Scotland's November 2018 report; and
- ▶ The ability of the IJB to effect change within Partners via the issue of Directions.

We also note that the IJB has not yet been able to conduct its own self-assessment against our assessment against guidance issued by Audit Scotland in March 2018, *Auditing Best Value - Integration Joint Boards*. Prior to the impact of the global pandemic, our annual audit work planned to support this self-assessment. The self-assessment, and our review, is now planned for 2020/21 will include consideration of:

- ▶ How the IJB is demonstrating the impact of integration;
- ▶ The effectiveness of plans in improving the outcomes for local people;
- ▶ How the integration partners are working together to deliver integration reform; and
- ▶ The overall pace and scale of change.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit and Risk Committee

D - Action plan

E - Follow up of prior year recommendations

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

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

Financial Statements and related reports

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

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

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

Standards of conduct / prevention and detection of fraud and error

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

Standards of conduct / prevention and detection of fraud and error

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

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

Best Value

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

Appendix B: Independence and audit quality

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

Matters that we are required to communicate

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

There are no relationships from 1 April 2019 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 5 March 2019.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the IJB consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Risk Committee on 3 September 2020.

Audit Fees

	2019/20	2018/19
Component of fee:		
Total agreed auditor remuneration	£20,100	£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
Total fee	£28,360	£25,000

The expected fee for the IJB is set centrally by Audit Scotland and 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.

As a result of the material additional audit procedures required in the year to address the additional risk around financial statement disclosures impacted by the direct and indirect consequences of Covid-19, we have proposed a 10% fee variation in line with the agreed process and rates set out by Audit Scotland. We have agreed a final fee for the 2019/20 audit including a fee variation of £1,800 as outlined above.

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 2019 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2019. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

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/report/quality-of-public-audit-in-scotland-annual-report-201920>.

Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Audit and Risk 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>Planning and audit approach</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>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Going concern</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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ 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 ▶ Enquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>Annual Audit Report or as occurring if material.</p>

Required communication

Our reporting to you

Related parties

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

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

No significant matters have been identified.

Independence

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

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

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

Annual Audit Plan

This Annual Audit Report - Appendix B

Internal controls

Significant deficiencies in internal controls identified during the audit

This Annual Audit Report - no significant deficiencies reported

Subsequent events

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

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

Material inconsistencies

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

This Annual Audit Report

Appendix D: Action Plan

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

Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	<p>We note that the IJB was unable to deliver all the planned transformational savings in 2019/20.</p> <p>The ability to deliver services differently, in line with the Directions, will be key to the success of the Strategic Plan.</p>	<p>The IJB should ensure that review mechanisms are in place to track the delivery of planned improvements and savings.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The savings planned for 2019/20 were challenging given the increasing demographics and demand for services. Although not all savings delivered in full the target was met in year and reported to the IJB. Ongoing monitoring of savings will continue and be reported routinely to the IJB.</p> <p>Responsible officer: Chief Finance Officer Implementation date: March 2020</p>
2	<p>The impact of the Covid-19 global pandemic has meant that the 5 Year Financial Plan now needs to be updated and reviewed.</p> <p>There remains uncertainty about the level of financial support that will be available from the Scottish Government.</p>	<p>The IJB must review the 5 Year Financial Plan, and Strategic Plan to respond to the impact of the global pandemic. This should include an assessment about the appropriateness of the Reserves Policy.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The 5 Year Financial Plan is currently being updated and as part of this will consider the Reserves Policy. The Directions are also being considered at the Strategic Planning Group for the impact of the pandemic.</p> <p>Responsible officer: Chief Finance Officer /Integration Manager Implementation date: March 2020</p>
3	<p>The IJB has not yet conducted a self-assessment against guidance issued by Audit Scotland in March 2018, <i>Auditing Best Value - Integration Joint Boards</i>.</p>	<p>The IJB should conduct a self-assessment against Best Value guidance to allow it to demonstrate to the Board key requirements are in place.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Work in this area has started but has been paused due to supporting the response to the pandemic. We will look to undertake this at a future Audit & Risk Committee.</p> <p>Responsible officer: Chief Finance Officer Implementation date: March 2020</p>

Prior Year Action Plan

This action plan summarises specific recommendations included within the 2019 Midlothian IJB 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 recommendation	Management response	Management response / Implementation timeframe
1	<p>The reserves strategy agreed in February 2017 set a target level of reserves of £1 million.</p> <p>The IJB now has general reserves of £1.49 million, against a projected budget gap of £10.8 million in the period to 2023/24.</p> <p>The IJB should review the reserves strategy to ensure that it continues to meet the needs of the organisation.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Management accepts this recommendation. Given the IJBs current reserves position and the policy being agreed in February 2017 management accepts a review of this would be beneficial.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: March 2020</p>	<p>The IJB reviewed the Reserves Strategy at its meeting in October 2019 and agreed that 2% of net expenditure continued to be appropriate.</p> <p>Reserve monitoring reports were enhanced throughout 2019/20 to provide clarity about the forecast balance.</p> <p>Audit Assessment: Complete</p>
2	<p>While the IJB operates at a strategic level, we consider that there is scope to improve the quality of financial reporting to ensure that the IJB can monitor the direction of travel against priorities within the Strategic Plan.</p> <p>There is scope to improve the financial monitoring reports for the IJB to provide members with sufficient assurance about the achievement of the strategic plan.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The financial monitoring reports continue to be refined and we regularly seek feedback from members regarding reports providing them assurance and oversight. Further workshops are planned with all IJB members over the coming year to ensure they are supported to discharge the appropriate level of scrutiny to the financial reports.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: March 2020</p>	<p>Financial monitoring reports have been provided on a quarterly basis and provide enhanced information for the Board including:</p> <ul style="list-style-type: none"> Forecast outturns for social care and health spend Forecast reserves position Updates against the transformation programme, including a RAG status on the likelihood of savings being achieved in full. <p>Audit Assessment: Complete</p>

Classification of recommendations

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

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

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

No.	Findings and recommendation	Management response	Management response / Implementation timeframe
3	<p>The IJB recently developed a 5 year rolling financial plan. However, a number of uncertainties remain and there is not yet a balanced MTFP in place to support the implementation of the Strategic Plan.</p> <p>Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis and the IJBs Strategic Plan is delivered.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The Medium Term Financial Plan continues to be refined and developed and through the RCRM transformation board the medium term financial recovery action will be developed. The IJB acknowledges uncertainty regarding financial sustainability across the public sector and the significant financial challenges facing both partners and therefore the IJB. We will look to utilise the Scottish Governments Medium Term Financial Framework for Health & Social Care to support this work.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: March 2020</p>	<p>The most recent 5 year financial plan in June 2019 identified a significant budget gap across the period of the Financial Plan, currently projected at £10.8 million (8% of the IJB's budget) by 2023/24.</p> <p>The IJB considered a revised financial outlook for 2020/21 within its financial monitoring report in December 2019. While this action was therefore in progress, it has subsequently been superseded by the Covid-19 pandemic.</p> <p>Audit Assessment: Superseded by Action Plan Point 2</p>
4	<p>The IJB places reliance on the partner bodies to mitigate a number of key operational risks, including the impact of EU Withdrawal. We consider that the risks relating to EU Withdrawal have not been fully articulated in relation to the strategic role of the IJB.</p>	<p>The IJB should satisfy itself that it has sufficient assurance that strategic risks relating to EU Withdrawal have been identified and mitigating actions taken.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The IJB is revisiting its risk management approach in light of the Covid-19 global pandemic. An updated risk register will be considered by the IJB's Audit and Risk committee in September 2020.</p> <p>Audit Assessment: In progress</p>

Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
5	Attendance from voting members at IJB meetings was mixed, but we note that the August 2019 meeting was not quorate and at a further meeting only three voting members and one substitute member were able to attend.	The IJB should review its frequency of meetings of the board and sub-committees to ensure that the cycle allows business to be addressed in a timely and effective basis, while ensuring the quantity of meetings is sustainable. <i>Grade 3</i>	The meeting frequency has been reviewed and we noted no similar attendance issues in 2019/29. Audit Assessment: Complete
6	There is scope to improve the performance reporting arrangements to provide assurance to the IJB that the delivery of the Strategic Plan is on track.	The IJB should review performance reporting arrangements to ensure that members have sufficient assurance that the Strategic Plan is on course and that the IJB is achieving Best Value. <i>Grade 2</i>	While we noted improvements in performance reporting during 2019/20, we consider that the IJB's planned Best Value self-assessment will provide further evidence that the IJB is achieving Best Value. Audit Assessment: In progress

Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the IJB, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"> Audit planning; setting scope and strategy for the 2019/20 audit LAN meetings held with other scrutiny partners 	Annual Audit Plan	March 2020
MAR			
APR			
MAY	<ul style="list-style-type: none"> Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information 	Impact report: Children and Young People's Mental Health	No longer applicable
JUN			
JUL	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements 	Audit clearance meeting	August 2020
AUG			
SEP	<ul style="list-style-type: none"> Conclude on results of audit procedures Issue opinion on the IJB's financial statements 	Certify Annual Financial Statements Issue Annual Audit Report	September 2020

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