



West Lothian Integration Joint Board

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

22 September 2020



EY

Building a better
working world

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About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of West Lothian Integration Joint Board (the IJB) for financial years 2016/17 to 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

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, in line with previous years. We worked with the Chief Finance Officer to update and make improvements to the Management Commentary and notes to the financial statements, in particular 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.

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.

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.

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 care providers.

Under the Integration Scheme, the financial costs and therefore key financial risks remain with the IJB's partners, NHS Lothian and West Lothian 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.

We have drawn 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.

In our view, the IJB has a framework to allow it to demonstrate to the board that Best Value is being achieved. We are satisfied that the areas for improvement identified are adequately captured and monitored on a routine basis to support continuous improvement.

Wider Scope and Best Value

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

Financial Sustainability

The impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners, including a currently estimated additional £7.1 million of costs related to Covid-19. There is also a budget gap where required savings have not been identified through to 2023 of £7.2 million.

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 West Lothian.

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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 regular briefings to all members. The IJB has continued to develop arrangements to support improved integration and partnership working.

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Financial Management

The IJB continues to identify and monitor overspends within key budget areas during the year, however these have been effectively identified and monitored through the year, with accurate financial reporting to the relevant governance bodies.

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

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Value for Money

The IJB's Annual Performance Report was published by 31 July 2020, in line with the requirements of legislation. The Annual Performance Report 2019/20 highlights mixed performance, with improvement in areas related to people living independently and staff engagement, but lower performance around some key indicators including positive experiences of care and healthy living.

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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 West Lothian 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, risk and governance committee on 4 March 2020.

The impact of the Covid-19 Pandemic

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.

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, risk and governance 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.

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.

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 £1.8 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.

Overall Materiality

Tolerable Error

Nominal amount

£2.5 million

£1.8 million

£125,000

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. Despite the pandemic, the Board complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual accounts. We received the unaudited financial statements on 29 June 2020, in line with planned timescales.

The inspection notice was published by West Lothian Council on the IJB's behalf on 11 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 West Lothian 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 West Lothian 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 West Lothian 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 West Lothian 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 West Lothian Council financial ledger. All of the journals for the IJB's transactions were posted at the year end and we reviewed all of these in the course of our work.

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. 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 2023. 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

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Our Annual Audit Plan identified a significant risk in relation to continued financial and demographic pressures. The IJB has continued to develop its longer-term planning arrangements through delivery of a medium-term financial plan through to 2022/23, and has identified a £7.2 million budget gap across all functions where planned savings have been identified to date. The impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners, including a currently estimated additional £7.1 million of costs related to Covid-19.

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 West Lothian.

Medium Term Financial Planning

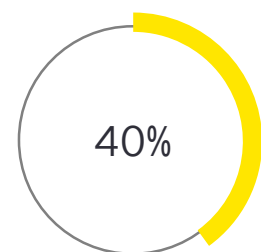
The IJB approved the 2019/20 budget at its meeting in April 2019, along with its updated medium term financial plan through to 2023. As part of the budgeting process, NHS Lothian and West Lothian Council provide indicative budgets for a five year period to allow the IJB to plan in the longer term. The most recent Five Year Financial Plan was presented to the IJB in April 2019.

Recommendation 1: Early identification of planned savings is critical to ensure delivery of balanced financial positions through the MTFP period. The IJB should ensure that a plan to address budget gaps through to 2023 is agreed with partners as soon as possible.

Exhibit 1: Budget savings identified through 2022/23



West Lothian Council has identified planned savings of £14.2 million from 2019/20 through to 2022/23.



NHS Lothian has identified planned savings of £4.7 million out of a required £11.9 million.

The budget recognised a financial gap of £26.2 million across the four year period. £19 million savings were identified as part of the MTFP, with £7.2 million remaining unidentified, all relating to NHS Lothian required savings. The cost and service impact of Covid-19 have added further, significant financial pressures to the financial plan from 2020/21.

Financial impact of Covid-19 - Mobilisation Plans

The IJB is 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.

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 monthly submissions have since been provided to the Scottish Government to reflect the wider costs and impact on operational services. The most recent mobilisation plan, submitted by the IJB in August 2020, has identified cost pressures of £7.1 million.

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 impact estimated by the submitting bodies. Initial funding received to date is £2.4 million.

Future recovery and financial planning impact

The IJB has outlined plans to undertake a review of its response to the Covid-19 pandemic, and we noted in our 2018/19 audit reporting that the Board now participates in the Strategic Planning Committee, a strategic partnership forum amongst the health board and the integration joint boards within the health board area. It aims to increase cooperation amongst the bodies involved and secure and promote efficient planning where there are common themes and pressures.

The Board has noted the following significant financial pressures on the IJB going forward:

- ▶ £1.1 million pre Covid-19 2020/21 budget shortfall in IJB budget related to health services, as part of the wider MTFP budget gap through to 2022/23.
- ▶ Additional budget pressures related to Covid-19 not currently met through additional funding by the Scottish Government as outlined above.
- ▶ The wider challenging financial environment related to government funding, partner financial uncertainty, economic uncertainty and the unknown impact of EU Exit at the end of the year.

Taking these matters into account, it is likely that the MTFP will require significant review and amendment. The IJB has noted the difficulty in making meaningful changes in the current environment, but accepted that it will be crucial that the 2020/21 budget position is closely monitored and options to manage budget pressures provided to the IJB board to ensure a balanced position is achieved for 2020/21.

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 £0.4 million deficit against budget in 2019/20. The IJB's reserve balances now totals £63,000, all of which is earmarked for committed projects. The IJB continued to identify and monitor overspends within key budget areas during the year, however these have been effectively identified and monitored through the year, with accurate financial reporting to the relevant governance bodies.

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

Financial Outturn

As Exhibit 1 below highlights, the IJB reported a deficit in the provision of services of £0.417 million in 2019/20 (2018/19: surplus of £0.480 million).

Exhibit 1: The IJB delivered overspends in both health services and social care during 2019/20

	Income £'000	Expenditure £'000	Surplus / (deficit) £'000
Health Services	198,970	199,097	(127)
Social Care Services	69,438	69,728	(290)
Total	268,408	268,825	(417)

Source: West Lothian IJB 2019/20 Financial Statements

In line with the previous financial year, throughout 2019/20 the IJB reported budget pressures in the cost of delivering services, primarily in respect of designated health function services. Adjustments were made to partner funding contributions to cover additional costs incurred in the year, with £1.1 million additional funding provided by NHS Lothian.

At the yearend the IJB achieved a balanced financial position with the exception of £417,000 drawn down from designated reserves for use on specific projects.

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 West Lothian 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.

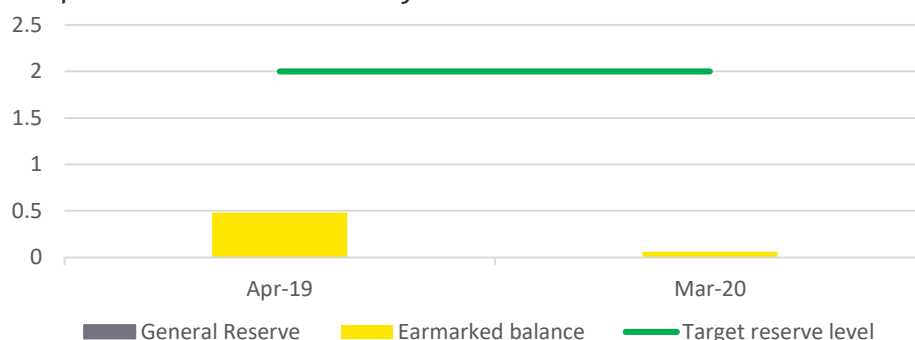
Due to the timing of the Covid-19 pandemic in the UK, we noted minimal variation in expenditure during 2019/20, although significant additional costs are being incurred through 2020/21 as outlined in the financial sustainability section of our report.

Financial monitoring

The IJB prepares its financial statement and budget monitoring reports by consolidating financial data from its partners; West Lothian Council and NHS Lothian. The IJB receive a financial update report at each scheduled meeting. High level financial performance information is provided with supporting commentary on key areas of movement. The IJB's forecast financial performance was consistent through the year, noting the anticipated variance between budgeted and forecast expenditure throughout the quarterly monitoring reports.

IJB reserve levels

Exhibit 2: The IJB continues to hold a low level of reserves compared to its established target reserves



Following the additional partner contribution made to address the forecast overspend, the only overspend in the year related to the use of earmarked reserves from funding received in previous years. The remaining £63,000 will be drawn down accordingly in 2020/21 as these projects are completed.

In line with our prior year audit recommendation, the IJB updated its reserves policy in January 2020. The policy has been updated to reflect the size and scale of the IJB's responsibilities, with a target level of uncommitted general reserves being established at £2 million for the medium-term. It is noted that this target level of £2 million should be 'recognised as an optimum level of reserves to be established over a period of time, recognising the balance between prudent financial planning and budget funding constraints.' The value of reserves will be now be subject to annual review as part of the IJB's budget and strategic planning.

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 regular briefings to all members.

The IJB has continued to develop arrangements to support improved integration and partnership working.

Local Code of Corporate Governance

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

As part of the process for developing the Annual Governance Statement, the IJB completes an assessment against the 'Local Code of Corporate Governance.' This was completed for 2019/20 and presented to the Audit, Risk and Governance Committee in May 2020.

The Annual Governance Statement noted a number of areas of improvement outstanding from previous years, as well as areas for consideration in 2020/21. One of the matters for consideration in 2020/21 includes the IJB carrying out a review of the Board's reaction to the Covid-19 pandemic and the role it played in tackling the emergency. While there are no specific actions outstanding that indicate significant areas of weakness in governance arrangements, the scale of work to be done demonstrates the ongoing focus required in respect of the continuous improvement of the IJB's governance arrangements, in what is still a relatively new body.

We reviewed the Annual Governance Statement 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 worked with management to further enhance the disclosures of how governance arrangements were maintained during the revised operating period as a result of Covid-19, in particular in respect of progress made against previous recommendations and the latest position around the updating of the Integration Scheme.

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.

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 board meeting scheduled for April 2020 was cancelled as a result of the pandemic, however, the March and June meetings went ahead. A paper noting the cancellation of the April 2020 board meeting due to Covid-19 was taken to the June board meeting. The IJB Board has continued to meet virtually throughout the crisis. Early information on the impact of Covid-19 was reported by the Chief Officer and the Chief Finance Officer to the board at its June 2020 meeting.

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

Risks associated with the pandemic have also been considered by the board. An updated risk register, taking account of Covid-19, was presented to the Audit, Risk and Governance Committee at the May 2020 meeting. Scottish Government guidance issued in May 2020 meant that NHS Boards assumed accountability and responsibility for care governance across all care homes. We are satisfied that key information was disseminated to IJB board members on a timely basis.

One of the key matters outlined within the 2019/20 annual governance statement was Covid-19, with discussion around emergency legislation allowed for public bodies. This included changes in working arrangements for staff and the establishment of the Scottish Government-mandated multi-disciplinary Care Home Clinical and Care Professional Oversight Team to co-ordinate and oversee arrangements in care homes to contain and tackle the coronavirus.

Assurance Statement

The IJB's Internal Audit opinion for the year concluded that "the IJB has a sound framework of governance, risk management and control" for 2019/20, consistent with the overall conclusion from 2018/19.

The internal audit plan for 2019/20 was approved by the IJB Audit, Risk and Governance Committee in March 2019, however, a revised annual audit plan was approved by the committee in December 2019. The revised plan removed two audits from the programme where sufficient work was already considered to be undertaken and two new audits undertaken in their place. Internal audit noted that the outbreak of the coronavirus pandemic had no impact on the revised internal audit plan as both audit reports had been issued by 4 March 2020.

Audit, Risk and Governance Committee

The Audit, Risk & Governance Committee continued to meet virtually throughout the crisis, with meetings being held at the start of March and May 2020. Consideration of the draft financial statements and annual governance statement was fulfilled by a virtual meeting of the IJB in June 2020.

The committee conducted a self-assessment of its effectiveness with the results being presented in December 2019. The self-assessment noted a number of areas where improvements were required including:

- ▶ Training and briefings for committee members; and
- ▶ Improving stakeholder awareness and understanding of the committee's activities.

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 intervention. In our prior year audit we reported that the board discussed and reviewed the recommendations around integration during a development session in February 2019 and completed the self-assessment as part of the May 2019 development session, with the results reported to the June 2019 board meeting. Subsequent to the conclusion of our 2018/19 financial statements audit an improvement plan approved by the board and partners was submitted to the MSG.

Progress against actions identified are reported to the IJB on a regular basis. Key areas for improvement noted from the most recent action plan update in March 2020 include:

- ▶ Strategic planning and commissioning;
- ▶ Joining up of governance arrangements across statutory partners; and
- ▶ Streamlining accountability processes across statutory partners.

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 West Lothian.

Integration scheme review

Legislation requires that the Integration Scheme which governs the operations of the IJB is reviewed by the main partners, being West Lothian Council and NHS Lothian, 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 the operation of the board 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

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The IJB's Annual Performance Report was published by 31 July 2020, in line with the requirements of legislation.

The Annual Performance Report 2019/20 highlights mixed performance, with improvement in areas related to people living independently and staff engagement, but lower performance around some key indicators including positive experiences of care and healthy living.

Performance Reporting

The IJB was responsible for spending £269 million in 2019/20. 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.

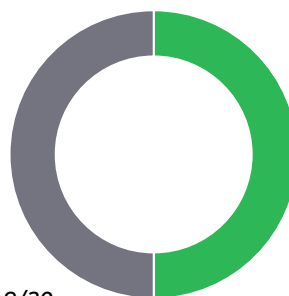
The Annual Performance Report highlights key areas of strategic priority investment and includes a range of performance measures against the outcomes included in its strategic plan.

The performance report 2019/20 also included a section regarding the IJB's 'response to Covid-19 Pandemic' which included:

- ▶ Arrangements put in place to optimise capacity and reduce delayed discharges.
- ▶ Consideration of West Lothian's Personal Protective Equipment (PPE) centre.
- ▶ The Covid-19 community pathway to manage demand for healthcare for people displaying symptoms.
- ▶ Support provided to staff and care homes.
- ▶ Plans for remobilisation of services and lessons learned.

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

- Improving direction of travel
- Stayed the same
- Declining direction of travel



Source: West Lothian IJB Performance report 2019/20

As Exhibit 3 demonstrates, for the indicators that the IJB was able to report on against new data in the past 12 months from June 2020, performance remained mixed. The report highlights improvement in areas related to people living independently and staff engagement, but lower performance around some key indicators including positive experiences of care and healthy living.

Best Value

We have drawn 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. The IJB has considered its compliance with the Best Value Framework in the year and concluded that the IJB "has demonstrated substantial compliance with Best Value based on the Best Value Framework agreed."

In our view, the IJB has a framework to allow it to demonstrate that Best Value is being achieved. We are satisfied that the areas for improvement identified are adequately captured and monitored on a routine basis to support continuous improvement.

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 through 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.

The IJB has considered its compliance with the Best Value Framework in the year, and in May 2020 submitted a review of compliance against the seven areas of best practice identified. The review concluded that the IJB "has demonstrated substantial compliance with Best Value based on the Best Value Framework agreed." It was noted the areas for ongoing improvement identified were consistent with those identified in the Annual Governance Statement for 2019/20:

- ▶ workforce and succession planning across the partnership; and
- ▶ monitoring of full compliance with GDPR and Data Protection Act 2018, including securing the appointment of a permanent Data Protection Officer.

Our Conclusions

In our view, the IJB has a framework to allow it to demonstrate to the board that Best Value is being achieved. We are satisfied that the areas for improvement identified are adequately captured and monitored on a routine basis to support continuous improvement.

4 Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit, risk and governance committee

D - Action plan

E - Follow up of prior year recommendations

F - Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

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

Financial Statements and related reports

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

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

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

Standards of conduct / prevention and detection of fraud and error

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

Standards of conduct / prevention and detection of fraud and error

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

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

Best Value

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

Appendix B: Independence and audit quality

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

Matters that we are required to communicate

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

There are no relationships from 1 April 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 March 2020.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the IJB consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit, risk and governance committee on 9 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 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.

The 2019/20 audit required additional audit procedures to address both the need for a reassessment of all audit risks and the additional scrutiny around financial statement disclosures impacted by the direct and indirect consequences of Covid-19. As a result of this additional work, we 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, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>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, risk and governance 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, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>Annual Audit Report or as occurring if material.</p>

Required communication	Our reporting to you
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 	<p>No significant matters have been identified.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p>Subsequent events</p> <p>Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>

Appendix D: Action Plan

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

Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The IJB continues to forecast a significant budget gap through to the end of its MTFP in 2022/23 with no identified savings to address this.	<p>Early identification of planned savings is critical to ensure delivery of balanced financial positions through the MTFP period. The IJB should ensure that a plan to address budget gaps through to 2023 is agreed with partners as soon as possible.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Further development of the IJB's MTFP, including options to address the current budget gap to 2022/23, will be undertaken during 2020/21.</p> <p>In addition to existing arrangements in place with partner bodies and at wider Lothian level, the recently established West Lothian Health and Social Care Transformation Board will help ensure there is a joined up approach to financial planning.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Implementation date: Ongoing throughout 2020/21 and updated MTFP to be reported to Board in first half of 2021, following the UK and Scottish Budget and confirmed funding settlements in relation to partner bodies.</p>

Appendix E: Prior Year Action Plan

This action plan summarises specific recommendations included within the 2019 West Lothian 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 IJB reserves policy notes an indicative reserves target over the course of the IJB's medium term financial plan of 2% of net expenditure, which would amount to £5.1 million at 31 March 2019. In the current and forecast financial climate, it is unlikely general reserves of this level will be attainable going forward</p> <p>The IJB reserve policy update should take into account the IJB's MTFP and integration scheme as well as the wider financial environment.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>The IJB Reserves Policy will be reviewed and updated during 2019/20, considering the comments made by external audit, and reported to the board for approval.</p> <p>Responsible officer: IJB Chief Finance Officer</p> <p>Implementation date: 31 March 2020</p>	<p>The IJB reserves policy was reviewed and updated in 2019/20 and presented to the Board in January 2020. The updated Reserves Policy proposed a prudent target level of uncommitted general reserves of £2 million. This will be kept under review by the Chief Finance Officer on an annual basis going forward. We have outlined our consideration of the current reserve levels held by the IJB in the financial management section of this report.</p> <p>Audit Assessment: Recommendation addressed, with ongoing monitoring required.</p>

No	Findings and recommendation	Management response	Management response / Implementation timeframe
2	<p>The IJB MTFP highlights a savings gap of £7 million in advance of the 2019/20 financial year, as a well as a number of key assumptions in the plan which could adversely impact savings requirements on realisation. The savings gap are materially related to health service delivery while the Council shows a balanced budget.</p> <p>Support from partners is critical to allow the IJB to continue to develop and deliver a MTFS.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Further development of IJB Medium Term Financial Strategy and savings proposals will be undertaken during 2019/20. This will involve close partnership working with partner bodies and finance. As well as existing arrangements in place, this will be enabled through joint Lothian Finance Group established comprising of NHS Lothian Director of Finance, Lothian Local Authority Section 95 officers and Lothian IJB Chief Finance Officers. A key area being progressed by the group is developing a more joined up approach to financial planning.</p> <p>Responsible officer: IJB Chief Finance Officer</p> <p>Implementation date: Ongoing through 2019/20 and updated MTFP to be reported to the Board in early 2020 following the 2020 Scottish Budget and confirmed funding settlements for partner bodies.</p>	<p>A Medium Term Financial Plan update paper was presented to the board in August 2019, following the Scottish Government's medium-term financial strategy being announced in May 2019. However, it was noted that the IJB's MTFP will be updated following the outcome of the Scottish Government's three-year financial settlement.</p> <p>As outlined in our financial sustainability section of this report, longer term financial planning remains a key area of risk and focus for the IJB. This risk has been further highlighted by the increased financial uncertainties and pressures resulting from the global pandemic.</p> <p>Audit Assessment: Recommendation partially addressed, with ongoing monitoring required.</p>

No	Findings and recommendation	Management response	Management response / Implementation timeframe
3	<p>We have observed the Committee's consideration of risk throughout the year through our attendance at meetings and noted rigorous review of the risks and how they are being mitigated and addressed by management.</p> <p>As the IJB continues to refine its risk management procedures we have highlighted a few ongoing areas for continuous improvement.</p> <p style="text-align: right;">Grade 3</p>	<p>Risk management procedures will continue to be reviewed and developed taking account of the areas for consideration identified to ensure continuing good practice is applied to the IJB's approach to risk management</p> <p>Responsible officer: IJB Director</p> <p>Implementation date: Ongoing throughout 2019/20</p>	<p>The IJB has continued to implement its risk management strategy throughout 2019/20. In May 2020, the IJB's risk manager presented the risk management annual strategy to the Audit, Risk and Governance Committee, concluding that "appropriate risk management arrangements are in place in accordance with the approved Risk Management Policy and Strategy." We noted that our recommendation outlined in our 2018/19 Annual Audit Report can still be implemented, namely the mapping of the Strategic Risk Register to each partners' Risk Register, ensuring awareness and escalation of risks across the partnership.</p> <p>Audit Assessment: Recommendation partially addressed, with ongoing monitoring and consideration required.</p>

Appendix F: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the IJB, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 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	May 2020
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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