



# Midlothian Integration Joint Board

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2022**

**September 2022**



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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. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 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.

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

## Complaints

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

# Executive Summary: Key Conclusions from our 2021/22 audit

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**We expect to issue an unqualified audit opinion on the IJB's 2021/22 financial statements**

## Financial Statements

We have concluded our audit of the financial statements of Midlothian Integration Joint Board (IJB or the Board) for the year ended 31 March 2022. No audit adjustments were required to be made and there are no unadjusted differences that we are required to communicate. The draft financial statements required additional input from audit and the Chief Financial Officer to ensure that the quality was comparable with previous years. As a result, changes were made to a number of areas of the financial statements, including the management commentary and Annual Governance Statements. All supporting working papers were of a good quality. We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate.

## Scope update

The IJB's Audit and Risk Committee considered our audit planning report at its meeting on 3 March 2022. At the meeting, we provided an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

Our Annual Audit Plan communicated that our audit procedures would be performed using a overall materiality of £1.6 million. We have assessed that this level of materiality remains appropriate for the actual outturn for the 2021/22 financial year. Performance materiality remains at 75% of overall materiality at £1.18 million.

## 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. The Scottish Government introduced a National Care Service (Scotland) Bill to Parliament on 20 June 2022. Under these plans, the functions of the IJB would transfer to become the responsibility of a National Care Service by 2026. As a result, we remain satisfied that the going concern basis remains appropriate for the IJB.

It is a requirement under revised auditing standard ISA 570 that we consider and challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. We had no matters that we are required to draw attention to within our opinion, and we were satisfied with the going concern disclosures within Note 1 to the financial statements.

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**We continued to review and update our risk assessment throughout the audit, including the materiality level applied. No changes were required as a result of this review.**

## Wider Scope and Best Value

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

### Financial Management



As in 2020/21, the IJB recorded a significant underspend during the year which allowed it to increase its reserves balances by £10.5 million. As a result, the IJB acknowledges that there is a need to review the Reserves Strategy to ensure that balances can be used to support the delivery of the Strategic Plan.

Financial monitoring arrangements are robust, but we noted that as a result of interim Chief Finance Officer arrangements, the quality of financial forecasting reports to the Board were insufficient to support decision-making.

We note that the Chief Finance Officer is a shared resource, and that there is a need to review the corporate support arrangement to ensure that the IJB has sufficient financial capacity.

### Financial Sustainability



Underspend as a result of late funding allocations mean that the IJB has now exceeded its target level of reserves. Forecasts for 2023/24 and beyond continue to present a challenging outlook.

The IJB has developed a Strategic Plan 2022-25, which sets out an ambitious transformation during a period of significant uncertainty due to the implications of the National Care Service Bill and ongoing pandemic costs. The plan also recognises the challenges associated with an increasing and ageing population. Work continues to develop a Medium Term Financial Plan to support the delivery of the Strategy, but the Board has issued a Direction to Partners to make use of earmarked reserves during 2022/23 to make urgent progress against priorities within the Strategic Plan.

### Governance & Transparency



The IJB's Annual Governance Statement notes that governance arrangements continue to operate effectively, throughout 2021/22 and demonstrates good practice in reporting on progress against priority improvement actions for the IJB.

Changes to the arrangements for the Chief Internal Auditor present a risk that the Board will not receive the annual level of assurance on governance and risk management processes that it requires. Action is underway to secure resource with Midlothian Council.

### Value for Money



The IJB exercised powers granted under the Coronavirus (Scotland) Act 2020 to delay the publication of the Annual Performance Report for 2021/22. It will be published in October 2022.

The IJB has achieved all but one of its high level targets for 2020/21, and performance data for 2021/22 highlights further improvement in levels of emergency admissions, delayed discharges and unplanned bed days. Performance reporting is good and is supported by recent work on data quality.

## Best Value Conclusions

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the IJB's achievement of Best Value. The IJB has established an updated Strategic Plan following extensive consultation with its communities. The Board continues to invest in self-evaluation and performance reporting. As a result, we are satisfied that the IJB has established effective arrangements to allow it to demonstrate that it meets its Best Value responsibilities.

# 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 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 or Board). Our appointment term was extended by 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 is 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 external auditor. Further information is available in Appendix B.

## Scope and Responsibilities

The Code sets out the responsibilities of both the IJB and the auditor (summarised in Appendix A).

### Financial statements 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 2022 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 2021/22 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. We outlined the significant risks and other focus areas for the 2021/22 audit in our Annual Audit Plan, which was presented to the audit committee on 3 March 2021.

One significant risk was identified in relation to the risk of fraud in expenditure recognition, which includes the risk of management override of controls. We consider this risk to manifest itself through the manipulation of expenditure recognition. In addition, we continued to place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements. Our findings are summarised in Section 2 of this report.

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

### Application of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £1.6 million. We have considered whether any change to our materiality was required in light of the financial impact 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

**£1.6 million**

1% of the IJB's net expenditure

Performance Materiality

**£1.18 million**

Materiality at an individual account level

Reporting Threshold

**£120,000**

Level that we will report to committee

As we 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.

### **Wider Scope audit**

Under the Code of Audit Practice, our responsibilities extend beyond the audit of the financial statements. Due to the nature of the IJB, our wider scope work requires significant allocation of resources in the audit. 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 Annual Audit Plan identified one area of significant risk in relation to the wider scope dimensions, regarding the development of a robust Medium Term Financial Plan. 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. We continue to consider the IJB's arrangements against guidance issued by Audit Scotland, *Auditing Best Value - Integration Joint Boards (March 2018)*. We outline our assessment for 2021/22 in Section 3 of this report. We also draw attention to expected revisions to arrangements under the new Code of Audit Practice for 2022/23 and beyond.

# Financial Statements audit

## Introduction

The annual financial statements allow the IJB 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 presumed risk of fraud in revenue and expenditure recognition, including through management override of controls. For the IJB, we consider this risk to manifest itself as an expenditure recognition risk.

## Compliance with Regulation

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.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the IJB to prepare financial statements, ensure their availability for public inspection and consideration by the board or a committee with an audit or governance remit. The IJB complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 29 June 2022, in line with planned timescales.

The inspection notice was published by Midlothian Council, on the IJB's behalf, on 17 June 2022, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

## Audit Outcomes

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



# Our audit opinion

## Element of opinion

Financial statements

- ▶ Truth and fairness of the state of affairs of the IJB at 31 March 2022 and its income and expenditure for the year then ended
- ▶ Financial statements in accordance with the relevant financial reporting framework and 2021/22 Code

Going concern

- ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting

Other information

- ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit

Matters prescribed by the Accounts Commission

- ▶ 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.

Matters on which we are required to report by exception

## Basis of our opinion

We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement.

We are satisfied that accounting policies are appropriate and estimates are reasonable

We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.

We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis

Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.

The Chief Finance Officer is responsible for other information, included in the financial statements.

We conduct a range of substantive procedures on the financial statements and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the IJB and the wider sector.

- ▶ Reviewing the content of narrative disclosures to information known to us.
- ▶ Our assessment of the Annual Governance Statement against the Delivering Good Governance Code.

We are required to report on whether:

- ▶ 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.

## Conclusions

We have issued an unqualified audit opinion on the 2021/22 financial statements of the IJB.

In accordance with the work reported on page 12, we have not identified any material uncertainties.

We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.

We have issued an unqualified opinion.

We have no matters to report.

# Significant and fraud audit risks

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

### What is the risk?

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.

As there is no material judgement associated with the recognition of the IJB's funding from Midlothian Council and NHS Lothian, we have determined that the risk of revenue recognition does not materialise within this area.

### What judgements are we focused on?

For expenditure we focus on the risk in relation to the existence and occurrence of expenditure incurred by the IJB in commissioning services from the partners. There may be judgement in the timing of the recognition of expenditure.

### What did we do?

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2021/22 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 written confirmation statements from the Director of Finance at NHS Lothian and Section 95 Officer at 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.]*

## Our conclusions

*[Subject to confirmation obtained from NHS Lothian's auditor], 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.*

### **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 transactions 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**

- ▶ 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

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 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 (issued at 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.

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. 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 has received further financial support to meet the additional costs and unachieved savings associated with the pandemic in February 2022. As a result, the funding to date has exceeded the additional costs of Covid-19, and the balance has therefore been transferred to the IJB's reserves. This financial support has reduced the financial risk and uncertainty during the going concern period. The IJB holds earmarked reserves at 31 March 2022 of £17.6 million, and a further general reserve of £5.87 million. This exceeds the target reserves level of around £3 million outlined in the Board's Reserves Strategy.

The Integration Scheme sets out the process to be followed should the IJB overspend in any financial year. Where an unexpected overspend is likely, the Chief 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 and ultimately any costs will be met by the IJB's partners in line with the terms of the Integration Scheme.

## Our conclusions

- ▶ We are satisfied that the IJB remains a going concern.
- ▶ We have worked with management to enhance the going concern disclosures within 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 on page 24.

## 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. During 2021/22, the Audit and Risk Committee considered a self-assessment prepared by the Interim Chief Finance Officer against Audit Scotland's guidance on Best Value for IJBs. We draw upon this work within our conclusions on page 24.

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

## The Wider Scope dimensions

### Financial Management:

- ▶ Considers the effectiveness of financial management arrangements, including 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 financial planning is effective in supporting service delivery.

### Governance and Transparency:

- ▶ Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.

### Value for Money

- ▶ Considers whether value for money can be demonstrated in the use of resources and the focus on continuous improvement.

# Financial Management

**Our overall assessment: Amber**



## Financial Position

The IJB's financial outturn continued to be significantly impacted by the response to the Covid-19 pandemic throughout 2021/22. The IJB recorded an underspend of £10.52 million (2020/21: underspend of £8.37 million) as a result of:

- ▶ The late allocation of £9.5 million of additional funding from the Scottish Government to meet Covid-19 costs in 2022/23 and beyond;
- ▶ Additional funding to respond to winter pressures, totalling £1.8 million.

Due to the timing of the allocations, the IJB reserves continued to increase significantly. Audit Scotland note in their June 2022 [Financial Analysis of IJBs](#) that in 2020/21, all IJBs recorded an increase in their level of reserves. The with the overall reserve balance held by IJBs increased by £437 million (304 per cent) in 2020/21, primarily as a result of significant Covid-19 funding and the inability to complete programmes of activity during the pandemic.

Audit Scotland note that the total reserves balances held as a proportion of each individual IJB's net cost of services in 2020/21 varied between 2.2% and 12.2%. Midlothian's proportion in 2020/21 was 8.3%, putting it in the highest quartile of IJBs. As Exhibit 1 outlines, the IJB's overall reserves further increased from £12.99 million in 2020/21, to £23.5 million in 2021/22.

### Exhibit 1: The IJBs Reserves continued to rise in 2021/22, although the majority of reserves are earmarked for covid or planned improvement programmes



Source: Midlothian IJB Financial Outturn 2021/22

The IJB has recognised that the use of reserves can support the delivery of the Strategic Plan.

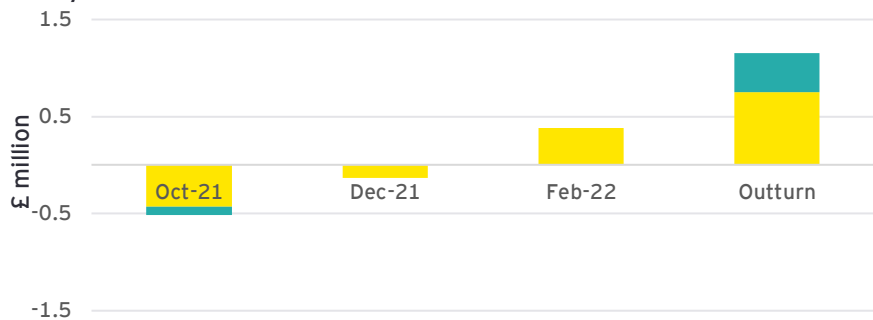
General, unearmarked reserves increased to £5.87 million, which equates to around 3.5% of expenditure, against the IJB's current reserves strategy of holding 2% of net expenditure. We consider that it remained appropriate to hold additional reserves during the period of uncertainty caused by the pandemic. However, at the outset of the financial year, as a result of the late additional allocation in February 2022, this balance increased to £9.7 million at March 2022. The IJB has recognised that there is now an opportunity to plan for the use of reserves to deliver financial sustainability and the aims within the Strategic Plan 2022-25.

**Recommendation 1:** The IJB should ensure that, as in prior years, financial monitoring reports provide Board members with clarity on the forecast outturn position, and impact on reserves balances.

### Financial Monitoring arrangements

The IJB used interim arrangements to fulfil the role of Chief Finance Officer for most of the 2021/22 financial year, as the postholder was on maternity leave. As a result, changes were made to the content of quarterly financial monitoring reports to the Board. As we note in Exhibit 2, the forecast financial outturn position reported to the Board varied significantly throughout the year. We note that the Board’s Chief Internal Auditor concluded that the budget monitoring process diminished during the year and that the financial information provided to the Board was insufficient to allow for effective budget monitoring.

**Exhibit 2: The forecast financial outturn position varied significantly during the year**



Source: Financial Monitoring reports to Midlothian IJB 2021-22

### Set Aside Arrangements

NHS Lothian serves Midlothian IJB and another four integration joint boards. For the majority of services provided by NHS Lothian, charges for core services are based on the net direct costs incurred for people who live in Midlothian. However, charges for hosted and set aside services (services that are delivered on a pan-Lothian basis) are based on the total actual costs for these service shared across four IJBs. Historically, the proportion allocated to Midlothian is around 10%.

Prior to the pandemic, work began to test and model the allocation of costs based on actual activity of each IJB. This work, led by NHS Lothian, remains in progress. Until this is resolved, there is a risk that Midlothian IJB costs are higher than usage, and that additional costs will be incurred in future years, with a corresponding impact on the medium term financial plan.

## CIPFA Financial management code

Compliance with the CIPFA Financial Management Code became a requirement for all local government bodies in 2021/22. The Code provides guidance for good and sustainable financial management and provides assurance that authorities are managing resources effectively. It requires organisations to demonstrate that the processes they have in place satisfy the principles of good financial management.

The IJB has recently prepared a full self-assessment against the Code which recognises that there remain areas for development, including the need to develop longer term financial planning. This has been identified as an area for improvement within the IJB's Annual Governance Statement.

## Finance Capacity

**Recommendation 2:**  
The IJB should review the adequacy of corporate support from Partners to ensure that it remains fit for purpose.

The IJB does not directly employ staff and instead relies upon its Partners to provide corporate and other support functions. The IJB has accountancy, risk management and performance support from both partners. We understand that Midlothian and East Lothian IJBs are now the only Boards to share a Chief Finance Officer. The Chief Finance Officer also fulfils a role within NHS Lothian. There are increasing demands on Chief Finance Officers across Scotland as a result of ongoing work on the cost impact of Covid-19, the need to respond to expectations about medium term financial planning, and preparation for the National Care Service. Similarly, there are increasing demands on procurement functions as a result of the need to support social care providers, including the distribution of sustainability payments.

As a result, in our view, the IJB should work with Partners to ensure that corporate support arrangements remain adequate and fit for purpose.



# Financial Sustainability

**Our overall  
assessment:  
Amber**



## **National Care Service Bill**

In June 2022, the Scottish Government published the National Care Service Bill. Proposals within the Bill would make Scottish Ministers accountable for adult social care in Scotland. The National Care Service will define the strategic direction and quality standards for community health and social care across Scotland.

Current IJB arrangements are expected to be replaced by local delivery boards. "Care Boards" which will work with the NHS, local authorities, and the third and independent sectors to plan, commission and deliver support and services for communities. Social care services currently provided in-house by local authorities, may continue under a commissioning arrangement with the care board. However, the care board may take over direct delivery, with staff transferring employment from the council to the care board.

The Bill explains that the detail of how the new service will work will be co-designed with people who have direct experience of social care services. The National Care Service is expected to be created in 2025/26. As a result of these changes, along with the ongoing impact of the pandemic, the IJB is responsible for strategic planning for health and social care during a significant period of uncertainty.

## **Strategic Plan 2022-25**

In April 2022, the Board approved the IJB's Strategic Plan for the period 2022-25. The Plan was subject to extensive consultation, including online surveys, focus groups interviews and events. The IJB estimates that over 2,500 participated in the consultation process.

The IJB's strategic aims continue to focus on:

- ▶ Increasing people's support and opportunities to stay well, prevent ill or worsening health, and plan ahead.
- ▶ Enabling more people to get support, treatment and care in community and home-based settings.
- ▶ Increasing people's choice and control over their support and services; and
- ▶ Supporting more people with rehabilitation and recovery.

Additional focus has been given in the 2022-25 plan to:

- ▶ Improving the ability to promote and protect people's human rights, including social and economic rights and meet our duties under human rights law, through our services and support.
- ▶ Expanding joint working, integration of services, and partnership work with primary care, third sector organisations, providers, unpaid carers, and communities to better meet people's needs.

The Plan recognises the challenges associated with the ongoing impact of the pandemic, and the increasing and ageing population within Midlothian but sets out ambitions to transform services over the next three years.

### **Financial Planning**

The IJB has recognised that the Strategic Plan must be supported by effective workforce and financial planning. All Health and Social Care Partnerships were required to submit 3-year Workforce Plans to the Scottish Government by 31 March 2022 which mapped out the medium-term needs of the workforce, including inequalities and areas of recruitment difficulty.

The IJB's Medium Term Financial Plan was based on the previous Strategic Plan and preceded the pandemic. Initial forecasts have been provided to the Strategic Planning Group and Board for the period to 2023/24. The IJB faces a significant continuing financial challenge, despite the level of reserves that the IJB held at 31 March 2022. As a result, the IJB has taken steps to ensure that a proactive, managed approach to using the reserves will be enacted to help ease pressure on the local health and care system whilst also beginning to accelerate the pace of transformation.

**Recommendation 3: The IJB recognises that a Medium Term Financial Plan is vital to support the delivery of the Strategic Plan.**

A Direction has been issued to Partners to provide clarity about the use of earmarked reserves where possible to support the delivery and transformation of delegated functions within the Strategic Plan.

Key costs pressures including the impact of likely pay settlements, general inflation and ongoing covid costs mean that uncertainty remains about the financial position for the remaining years of the Strategic Plan.

During 2021/22, the IJB recognised additional costs associated with the pandemic of £5.488 million, which included costs associated with:

- ▶ The opening of an additional ward in Midlothian Community Hospital (£1.3 million)
- ▶ Discharge to assess expansion (£1.13 million); and
- ▶ Covid prescribing pressures (£0.6 million).

The allocation of additional Covid-19 funding in February 2022 is understood to be a final position, and that no further funding will be available in 2023/24 and beyond.

# Governance and Transparency

**Our overall assessment: Green**



## Local Code of Corporate Governance

The IJB complies with the CIPFA framework for *Delivering Good Governance in Local Government*, in the preparation of its Annual Governance Statement (AGS). The AGS reports on the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2022/23 including:

- ▶ Demonstrating links within the Strategic Plan 2022-23 to local and national objectives and alignment of Directions;
- ▶ Updating the Financial Strategy to address significant deficits indicated in the Medium Term Financial Plan 2021/22 - 2024/25;
- ▶ Implementing the action arising from the IJB's self-assessment against the CIPFA Financial Management Code;
- ▶ Further developing the Performance Management Framework to define and align performance measures to key priorities and outcomes of the updated Strategic Plan; and
- ▶ Progressing workforce plans for all delegated services to reflect the updated Strategic Plan and significant budgetary pressures.

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, including the Chief Internal Auditor's Annual Assurance Report.

## Annual Assurance Report

The annual internal audit assurance report opinion and conclusion notes that the IJB's governance arrangements, risk management and systems of internal control are operating satisfactorily. During 2020/21, work conducted by internal audit to follow up previous recommendations found that a number of actions had been delayed as a result of the focus on the pandemic. Good improvement in completing actions was noted in 2021/22 despite the ongoing challenges. The Chief Internal Auditor did, however, note that:

- ▶ Appropriate medium term strategic or financial planning arrangements are not presently in place resulting in the Board being unaware of the financial measures that need to be taken to bring future budgets into balance and achieve financial sustainability; and that
- ▶ The budgetary monitoring process has degraded during the year and is not sufficient to allow for effective budget monitoring.

The IJB's own assessment of the effectiveness of governance arrangements acknowledges the ongoing work to address governance development areas, but concludes that the internal control environment provides reasonable and objective assurance that significant risks would be identified and mitigated. We were satisfied that the statement met the requirements and was materially consistent with both the governance framework and key findings from relevant audit activity.

The AGS continues to demonstrate good practice in reporting on progress against priority improvement actions for the IJB.

The IJB should continue to work with Midlothian Council to ensure that internal audit resource is prioritised to provide sufficient assurance in 2022/23.

### **Internal Audit Arrangements**

During 2021/22, the IJB noted that Midlothian and Scottish Borders Council had mutually agreed to conclude the arrangements for a shared internal audit service. We understand that the IJB's Chief Officer has engaged with Midlothian Council directly to ensure that internal audit arrangements are secured. However, no arrangements are yet in place, and the Audit and Risk Committee has been unable to approve the full programme of internal audit coverage in 2022/23 as the scope of a review to be undertaken by the NHS Lothian internal audit team has not yet been determined. In our view there is a risk that insufficient coverage will be provided by 31 March 2023 to allow the Annual Assurance Report to be prepared.

### **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 initially scheduled to have been concluded by June 2020, and had begun at March 2020 but was impacted by the pandemic.

During 2021/22, the Partners' completed the review of the Integration Scheme and the proposal has been submitted to the Scottish Government for review and approval. The current Integration Scheme has remained in place throughout this period and we did not highlight any concerns with the current arrangements.

### **Audit Committee arrangements**

The Chair of the Audit and Risk Committee did not stand for the most recent local government elections in May 2022. As a result, the IJB was required to appoint a new Chair and new members have been appointed to the Committee. We note that the Chief Finance Officer has delivered training on the role of the audit committee to new members and to date there has been no impact on the effectiveness of the committee.

# Value for Money

**Our overall assessment: Green**



## Annual Performance Report

The IJB considered a draft Annual Performance Report for 2021/22 in August 2022. The Board will continue to exercise the powers granted to public authorities under the Coronavirus (Scotland) Act 2020 to delay the publication of the Annual Performance Report for 2021/22 to October 2022.

The Annual Performance Report will include explanation of the key areas of spend, financial challenges, and how the IJB works with communities, along with performance data from the Partnership.

## Performance Monitoring

The IJB has established improvement goals to allow it to monitor key indicators based on the recommendations made by the Scottish Government Ministerial Steering Group (MSG) for Health and Community Care. against the progress of the Strategic Plan. The improvement goals focus on reducing unscheduled hospital activity and shifting the balance of care, including use of institutional care. They are based on goals recommended by the Scottish Government Ministerial Strategic Group for Health and Community Care and improvement goals that were set by the IJB in April 2021. Exhibit [x] demonstrates that in 2020/21, all but one of the targets was achieved.

**Exhibit [1]: The Board receives detailed performance reports against key priorities on a quarterly basis.**

MSG Indicator	2020/21 Target (rate per 100,000)	2020/21 Performance	Target achieved	2021/22 to date / performance trend
1. A&E attendances	31,543	26,390	✓	33,053 - declining
2. Emergency admissions	9,207	9,207	✓	7,464 - improving
3. Unplanned bed days: (a) Acute (b) Geriatric long stay (c) Mental Health	60,888 13,733 15,910	57,459 14,122 12,511	✓ ✗ ✓	(a) 43,125 - improving (b) No data available (c) No data available
4. Delayed discharges	9,836	9,779	✓	8,249 - improving
5. Last 6 months of life in a large hospital	<8.7%	7.8%	✓	Provisional data improving
6. Balance of care (time at home)	>96.4%	97%	✓	No data

Source: Quarterly performance reports presented to Midlothian IJB

The IJB has invested reserve balances in in performance reporting and analysis to support the development of the Strategic Plan and a Partnership-wide Performance Framework.

### Performance Management

During 2021/22, the IJB agreed to allocate additional resource to improve the quality of performance reporting and analysis available to the Board. A Programme Manager and Data Analyst were recruited to allow the development of a performance “dashboard” for the Board, and greater focus to be given to evaluate the impact of the Strategic Plan and Directions.

A new Data Assurance and Governance Group is in place to oversee the development of a Partnership-wide Performance Framework. The membership of the group includes performance and finance team members and the remit includes examination of performance data to ensure that governance and quality standards are met. Each performance dashboard presented to the Board includes a summary of any data issues emerging from Partners.

# Best Value: Our assessment

**Our overall  
assessment:  
Amber**



## Best Value Self Assessment

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 March 2022, the Audit and Risk Committee considered the IJB's self-assessment against guidance issued by Audit Scotland in March 2018, *Auditing Best Value - Integration Joint Boards*. The self-assessment notes work underway to:

- ▶ Develop longer term financial planning;
- ▶ Support further improvement of performance reporting to demonstrate progress against the Strategic Plan; and
- ▶ Arrangements in place to review services and identify improvements.

The IJB has also established a programme of self-evaluation to recognise that the partnership oversees very complex systems, and is responsible for the care of individuals with very complex needs. A series of workshops were held with board members in late 2021 - early 2022 to analyse performance and identify priorities for the Strategic Plan in greater detail, which included consideration of value for money.

We have drawn upon our wider scope work to conclude that the Board has continued to demonstrate strong partnership working and improved performance. Subject to the areas for development identified in relation to longer term financial planning, we are satisfied that the IJB has established effective arrangements to allow it to demonstrate that it meets its Best Value responsibilities.

## Future Best Value Focus

In July 2022, the Chair of the Accounts Commission wrote to the Chief Officer to outline revised arrangements for the approach to auditing Best Value in IJBs in 2022/23 and beyond. The Chair noted that in the period since the Commission agreed to introduce a new approach to auditing BV in IJBs the Scottish Government has made a commitment to deliver a National Care Service (NCS) before the end of this parliament, i.e. by end 2026. Under the current proposals IJBs will be reformed into local care boards, accountable to Scottish Ministers and the new bodies will therefore be audited by the Auditor General for Scotland.

This significant structural and organisational change, combined with wider issues associated with the proposed creation of the NCS, such as the need to consider the impact of planning for the introduction of the NCS on IJBs means that the Accounts Commission has taken the decision not to proceed with the planned roll out of a new approach to auditing Best Value in IJBs.

The Commission has instead agreed to undertake a broad-based programme of national and local audit work on IJBs.

### **Programme of Work on IJBs**

The Accounts Commission anticipate that future work on IJBs will include:

- ▶ a further joint national performance audit with the Auditor General for Scotland on progress with health and social integration (including the identification of good practice);
- ▶ national thematic performance audit work in areas such as social care workforce planning and commissioning;
- ▶ a continued focus on IJB risks and performance through annual audit reports; and
- ▶ audit work in conjunction with the Auditor General for Scotland on Scottish Government planning and preparations for the new NCS.

The new proposals have been designed to ensure that the Commission (and where appropriate the AGS) are providing robust independent oversight and public reporting at both national and local level on the current performance of IJBs as well as monitoring and reporting on the risks and challenges created by the proposed creation of the new NCS.





# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit committee

D - Audit Action Plan

# 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 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We are not aware of any inconsistencies between IJB's policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, Ernst & Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

## Audit Fees

	2021/22	2020/21
<b>Component of fee:</b>		
<b>Total agreed auditor remuneration *</b>	<b>£19,250</b>	<b>£18,850</b>
<b>Audit Scotland fixed charges:</b>		
Pooled costs	£2,010	£1,790
Performance audit and best value	£5,670	£5,650
Audit support costs	£1,030	£1,040
<b>Total fee</b>	<b>£27,960</b>	<b>£27,330</b>

\* The expected fee for each body is a range set centrally by Audit Scotland, which 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.

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 2021 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2021](https://www.ey.com/en_uk/who-we-are/transparency-report-2021). 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 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://audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

# Appendix C: Required communications

Required communication	Our reporting to you
<p><b>Terms of engagement / Our responsibilities</b></p> <p>Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	<p>Annual Audit Plan</p>
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty related to going concern</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The appropriateness of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	<p>Annual Audit Report</p>

Required communication	Our reporting to you
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No significant matters have been identified.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the audit 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><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Annual Audit Report or as occurring if material.</p>
<p><b>Material inconsistencies</b></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

## 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	Recommendation	Management Response
1	<p>We note that the Board's Chief Internal Auditor concluded that the budget monitoring process diminished during the year and that the financial information provided to the Board was insufficient to allow for effective budget monitoring.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The IJB should ensure that, as in prior years, financial monitoring reports provide Board members with clarity on the forecast outturn position, and impact on reserves balances.</p>	<p>Agreed, due to a change in personnel financial monitoring reports differed from previous years.</p>
2	<p>There are increasing demands on Chief Finance Officers across Scotland as a result of ongoing work on the cost impact of Covid-19, the need to respond to expectations about medium term financial planning, and preparation for the National Care Service. Similarly, there are increasing demands on procurement functions as a result of the need to support social care providers, including the distribution of sustainability payments.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The IJB should work with Partners to ensure that corporate support arrangements remain adequate and fit for purpose</p>	<p>Agreed, the IJB will discuss with its Partners the corporate support arrangements in place.</p>
3	<p>The IJB's Medium Term Financial Plan was based on the previous Strategic Plan and preceded the pandemic. Future updates should include an assessment about the appropriateness of the Reserves Policy.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The IJB should ensure that longer term financial planning is in place to support the delivery of the Strategic Plan.</p>	<p>Agreed, a standalone longer term financial plan is currently being developed for the IJB.</p>

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