

West Lothian 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 the 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. 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.

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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 Antony Clark, 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

We issued an unqualified audit opinion on the IJB's 2021/22 financial statements

Financial Statements

We have concluded our audit of the financial statements of West Lothian Integration Joint Board (IJB or the Board) for the year ended 31 March 2022. One adjustment was made to the financial statements since the presentation of the unaudited accounts in June 2022. The draft financial statements and supporting working papers were of a good quality, which is in line with previous years. 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, Risk and Governance Committee considered our audit planning report at its meeting on 23 February 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 an overall materiality of £2.8 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 £2.1 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.

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 £20.772 million. As a result, the IJB held a reserves balance significantly higher than that outlined in its Reserves Policy.

Financial monitoring arrangements are robust, with quarterly updates to the Board remaining accurate and consistent throughout the year.

Financial Sustainability



Underspends 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.

Work continues to develop a Medium Term Financial Plan to support the delivery of the 2023 Strategic Plan, but initial financial outlooks estimate a budget gap of £21.3 million over the five year term.

The IJB faces ongoing financial pressure with uncertainty around future Covid costs, inflationary pressures and any implications that may arise from the National Care Service Bill.

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.

Work to update the Integration Scheme continued in 2021/22, with both partners approving the revised Scheme within the first quarter of 2022/23. The proposal has since been submitted to the Scottish Government for review and approval.

Value for Money



The IJB's Annual Performance Report was published by 31 July 2022, in line with the standard national requirements. No delay was required as a result of the impact of Covid-19.

The IJB has reported mixed performance within 2021/22, but movements remain consistent with Scottish national averages.

Performance has been reported on a quarterly basis, and the IJB has demonstrated a commitment to the enhancement of ongoing monitoring.

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 Council's achievement of Best Value. 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.

1 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 West Lothian 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 23 February 2022.

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 £2.8 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

£2.8 million

1% of the IJB's net expenditure

Performance Materiality

£2.1 million

Materiality at an individual account level

Reporting Threshold

£140,000

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 ongoing challenges and risks around financial sustainability as it works toward its next Medium Term Financial Plan, including the pandemic and the potential impact of revisions to the IJB's working arrangements in the longer term. 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 21 June 2022, in line with planned timescales.

The inspection notice was published by West Lothian Council, on the IJB's behalf, on 9 June 2022, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

Audit Outcomes

There was one adjustment made to the financial statements since the presentation of the unaudited accounts in June 2022. 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 West Lothian Council and NHS Lothian, we have determined that the risk of revenue recognition does not materialise within this area.

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 judgements are we focused on?

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2021/22 our work included:

What did we do?

- ▶ 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 written confirmation statements from the Deputy Director of Finance at NHS Lothian and Section 95 Officer at 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 confirmation from the NHS Lothian auditor highlighted a difference in the accounting treatment of prior year reserves drawdown by the IJB in 2021/22. The IJB Accounts were adjusted for this variance to ensure consistency. The adjustment processed is outlined in Appendix E. The confirmations agreed the income and expenditure amounts transacted with West Lothian Council in the year.

Our conclusions

One adjustment to the financial statements was made 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 West Lothian 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 of the Five Year Financial Plan 2023/24 - 2027/28.

The IJB 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 £26.311 million, and a further general reserve of £3.769 million. This exceeds the target reserves level of around £2 million outlined in the Board's Reserves Policy.

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 23.

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, Risk and Governance Committee considered an assessment prepared by the Chief Finance Officer of compliance with the Best Value duties for IJBs. We draw upon this work within our conclusions on page 23.

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: Green



Financial Position

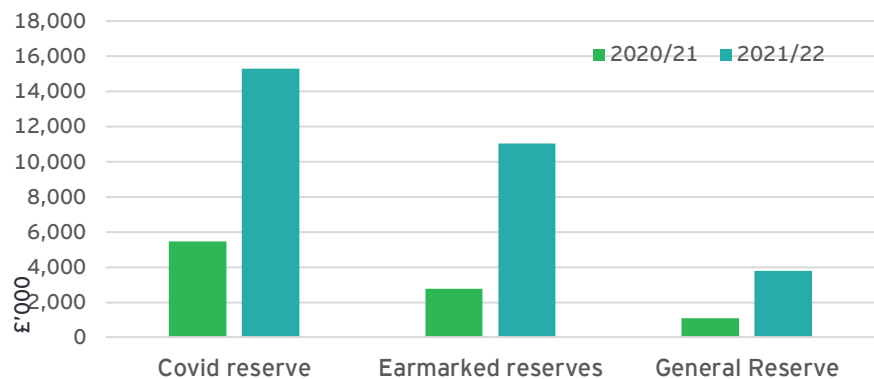
The IJB's financial outturn continued to be significantly impacted by the response to the Covid-19 pandemic throughout 2021/22. The IJB recorded an underspend of £20.772 million (2020/21: underspend of £9.245 million) as a result of:

- ▶ The late allocation of £21.209 million of additional funding from the Scottish Government to meet Covid-19 costs in 2022/23 and beyond
- ▶ A core underspend against budget of £2.685 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, 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.

As Exhibit 1 outlines, the IJB's overall reserves further increased from £9.308 million in 2020/21, to £30.080 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: West Lothian IJB Annual Accounts 2021/22

The IJB held reserves above the targeted level outlined in its reserves policy.

General, unearmarked reserves increased to £3.769 million, which is notably above the IJB's current reserves policy of holding £2 million. However, we consider that it remained appropriate to hold additional reserves during the period of uncertainty caused by the pandemic.

Financial Monitoring arrangements

The IJB was set a balanced budget prior to the start of the financial year in March 2021, which included budgeted savings of £5.788 million split between adult social care, core health services, pan-Lothian hosted services and acute set-aside.

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 receives quarterly financial update reports through the year.

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 with the exception of the significant variances identified resulting from costs related to the pandemic.

This initially showed a minor underspend, which was further increased by the additional Scottish Government funding received in advance of the yearend, resulting in the final position outlined.

Set Aside Arrangements

NHS Lothian serves West Lothian 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 West Lothian. 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.

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 the 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 prepared a full self-assessment against the Code in December 2021 which recognised full compliance pending the approval of revisions to the Financial Regulations in January 2022. Compliance will continue to be monitored on an annual basis in line with the budgetary cycle.

Finance Capacity

The IJB does not directly employ staff and instead relies upon its Partners to provide corporate and other support functions. 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 care home providers, including the distribution of sustainability payments.

While we do not have any specific concerns about the corporate functions supporting West Lothian IJB, we recommend that the Board keeps this under review 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, mean that the IJB is responsible for strategic planning for health and social care during a significant period of uncertainty.

Strategic Planning

In April 2019, the IJB approved an updated Strategic Plan to cover the period to 31 March 2023, which sets out how the IJB intends to deliver the nine national health and wellbeing outcomes through agreed strategic priorities and transformational change programmes. The plan recognises that strategic planning for service delivery is intrinsically linked with longer term financial planning and sets out a requirement for partners to work with the IJB on the preparation of a medium-term financial strategy.

The Board has recognised the challenges around longer term financial planning in the current environment, which has been exacerbated by the current and forecast longer term impact of Covid-19. However, longer term financial planning remains pivotal to delivery of strategic objectives. With this in mind management's intention is to further develop the medium term financial plan during 2022/23 and develop a framework for integrated financial planning as part of the next IJB Strategic Plan covering the period 2023/24 to 2027/28.

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. However, work is ongoing to develop revised Strategic and Financial Plans for 2023 onwards. Recognising the importance of aligning these, the IJB is working closely with the Partner bodies to develop a detailed Financial Plan which will cover the five year period from 2023/24 to 2027/28. We expect this to be published alongside the Strategic Plan in March 2023.

The IJB faces a significant continuing financial challenge, despite the level of reserves that the IJB held at 31 March 2022. Initial forecasts have been provided to the Integration Joint Board for the five-year period from 2023/24, with a total estimated budget gap of £21.3 million. Of this budget gap, £13.4 million is attributable to health functions, and the remaining £7.9 million to social care functions.

Work is ongoing to prepare a Medium Term Financial Plan for the five years from 2023/24.

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 upcoming years of the Strategic Plan.

During 2021/22, the IJB recognised additional costs associated with the pandemic of £11.3 million, which included costs associated with:

- ▶ Additional staffing costs, including recruitment to prevent hospital admission and facilitate supported discharge;
- ▶ Additional prescribing costs, including price increases directly due to the pandemic; and
- ▶ Additional support to Care at Home providers.

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:

- ▶ Ensuring full compliance with requirements around data protection procedures, raising awareness of statutory UK anti-terrorism regimes known as 'prevent and contest', and completion of the process for adopting and implementing a revised Members' Code of Conduct;
- ▶ Actions which may emerge as a result of the recommendations on the establishment of a national care service;
- ▶ Continued monitoring of progress towards completion of actions arising from the joint inspection of strategic planning; and
- ▶ Implementation of any actions required to ensure compliance with the revised Integration Scheme once it is approved by the Scottish Ministers.

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 Internal Auditor's Annual Assurance Report.

Annual Assurance Report

The annual internal audit assurance report opinion and conclusion notes that the IJB has a sound framework of governance, risk management and control.

The Internal Audit topics reported on in 2021/22 were budget monitoring within West Lothian and NHS Lothian, and progress on the action plan arising from the joint inspection report. These were respectively concluded as Satisfactory and Effective, with each having a couple of findings.

The IJB's own assessment of the effectiveness of governance arrangements 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 2021/22." 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.

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 with the board being a formal consultee, but this was impacted by the pandemic.

During 2021/22, the Partners' completed the review of the Integration Scheme, with approval by the council obtained in April 2022 and the health board in June 2022. The proposal has since 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 identify any concerns with the current arrangements across the IJB partners.

Audit Committee arrangements

The Audit, Governance and Risk Committee undertook a self-assessment of its effectiveness, with the results presented in December 2021. The majority of responses were positive with no respondent indicating they disagreed or strongly disagreed with any statement, which is consistent with the 2020 survey results.

Value for Money

**Our overall
assessment:
Green**



Annual Performance Report

The IJB considered a draft Annual Performance Report for 2021/22 in June 2022 and the approved version was published by 31 July 2022, in line with standard national requirements. No delay was required as a result of the impact of Covid-19.

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 as well as national outcomes, and comparisons to national average performance where possible. In line with the prior year, the performance report also included information specific to the Covid-19 response in the year.

The IJB's performance reporting highlighted the results of the Scottish Health and Care experience survey, reporting that five of the nine indicators reported scores for West Lothian marginally above the Scottish average. The performance reported against the data from the latest available Scottish Morbidity Records noted improvements in only 2 of the 10 key indicators, although this is consistent with the trends for the Scottish average. Where relevant, the report outlined the impact of Covid-19 and lockdown arrangements on both positive and negative performance trends, such as around movements in hospital admission rates and support offered to carers.

Performance Monitoring

Quarterly performance reports are reported to the IJB to demonstrate progress against the priorities outlined in the Strategic Plan 2019 to 2023 in relation to supporting strategic commissioning plans.

The IJB is expected to adopt a new performance framework in 2023 to underpin the Strategic Plan.

Performance Management

There have been continuing discussions within IJB development sessions and meetings about the future formatting of reporting and the performance indicators to be included within Performance Reports. However, the Covid pandemic and resource constraints made it challenging to revisit performance measures.

Advertisements have been made to recruit a performance and analytics lead directly to the partnership to assist with performance reporting. However, the IJB has struggled to fill the post and is exploring alternative avenues.

Given that a new Strategic Plan is currently in development and due to be published in 2023, the IJB has committed to maintain current performance monitoring measures. It is anticipated that a new performance framework will be developed to underpin the Strategic Plan.

Best Value: Our assessment

**Our overall
assessment:
Green**



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.

The IJB has considered its compliance with the Best Value Framework in the year, and in June 2022 submitted a review of compliance against the areas of best practice identified in the available guidance. The review concluded that, as in previous years, 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 within the financial statements for 2021/22. The IJB has committed to give further consideration to the GDPR and Data Protection Act requirements within 2022/23.

We have drawn upon our wider scope work to conclude that the Board has continued to demonstrate strong partnership working and improved performance. We are satisfied that the IJB has established effective arrangements to allow it to demonstrate that it meets its Best Value responsibilities, and that the areas for improvement identified are adequately captured and monitored on a routine basis to support continuous improvement.

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.



4 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 |
|--|----------------|----------------|
| Component of fee: | | |
| Total agreed auditor remuneration * | £19,250 | £18,850 |
| Audit Scotland fixed charges: | | |
| Pooled costs | £2,010 | £1,790 |
| Performance audit and best value | £5,670 | £5,650 |
| Audit support costs | £1,030 | £1,040 |
| Total fee | £27,960 | £27,330 |

* 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 2020 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2020. 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://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix C: Required communications

| Required communication | Our reporting to you |
|---|--|
| <p>Terms of engagement / Our responsibilities</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>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>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>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 related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness 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 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> |

| 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 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>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> |
| <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

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 |
|----|----------|----------------|---------------------|
|----|----------|----------------|---------------------|

We have no new recommendations to raise as a result of our audit work in 2021-22 and there were no recommendation in the prior year.

Appendix E: Adjusted errors identified during the audit

| Audit differences | | | | |
|-------------------|--|--|-------|-------------------------------|
| No | Description | Income and Expenditure Impact / £000's | | Balance Sheet Impact / £000's |
| 1 | <i>Accounting treatment - drawdown of prior year reserves held by NHS Lothian in 2021-22</i> | Dr Expenditure | 1,284 | |
| | | Cr Income | 1,284 | |

EY | Assurance | Tax | Transactions | Advisory

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