

# Midlothian Integration Joint Board

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2021**

**September 2021**

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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 Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# Executive Summary: Key Conclusions from our 2020/21 audit

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**We expect to issue an unqualified audit opinion on the IJB's 2020/21 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 2021. No audit adjustments were required to be made and there are no unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were of a good quality, 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.

We worked with the Interim Chief Finance Officer to update and make improvements to the implementation of the CIPFA Financial Management Code and progress to agree the revised Integration Scheme. Overall, we were satisfied that the Annual Governance Statement, reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

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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.**

## Scope update

In our audit planning report considered at the 4 March 2021 Audit Committee 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.

In our Annual Audit Plan we communicated that our audit procedures would be performed using an overall materiality of £1.5 million. We have assessed that this level of materiality remains appropriate for the actual outturn for the 2020/21 financial year. Performance materiality remains at 75% of overall materiality at £1.13 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.

Under a 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.

## Wider Scope and Best Value

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

We have drawn upon our wider scope work to conclude on the IJB's approach to Best Value.

The IJB has established a significant programme of self-evaluation to inform the development of a revised Strategic Plan. Full consideration of compliance against Best Value criteria will be facilitated in October 2021.

As a result of the planned improvements to self evaluation and learning from others, we are satisfied that the IJB has established effective arrangements to allow it to demonstrate that it meets its Best Value responsibilities.

### Financial Management

The core financial management arrangements established by the IJB remain appropriate.

Significant uncertainty about funding was eased when the IJB received confirmation that the Scottish Government would fund all of the additional costs related to the pandemic. The level of general fund reserves has significantly increased as a result of additional allocations. These reserves have mostly been earmarked to meet the future costs of Covid-19, however the general uncommitted reserve has also increased significantly at the year end to £4.7 million (2020: £3 million).

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### Financial Sustainability

While work has continued to develop a robust Medium Term Financial Plan, current planning continues to identify a significant budget gap in the medium term. Reporting to the Board on savings programmes should be reinstated to ensure that members have early visibility of financial pressures.

Work is underway to support the development of the updated Strategic Plan. An Interim Workforce Plan notes national concerns relating to recruitment and retention of staff in health and social care, and local difficulties in relation to a shortage of GPs and age profile of District Nurses.

RED

### Governance and Transparency

The key features of good governance at the IJB are in place and operating effectively, and remained so throughout 2020/21 despite the impact of lockdown arrangements. A self-assessment of the effectiveness of the Audit Committee highlighted minor development areas, which will be addressed in 2021/22. The IJB has disclosed areas for further improvement within the Annual Governance Statement.

Work to update the Integration Scheme remains ongoing following delays to the initial timetable due to Covid-19.

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### Value for Money

The IJB exercised powers granted by the Coronavirus (Scotland) Act 2020 regarding the delayed publishing of the Annual Performance Report for 2020/21.

Work is underway to improve the quality of performance reporting, and the IJB has recently agreed to establish a performance sub-group to support improved scrutiny arrangements.

The IJB has highlighted good progress within its analysis of performance against key improvement targets. Revised targets have been established.

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# Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the IJB 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 has been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is designed to summarise the key findings and conclusions from our audit work. It is addressed to both members of the IJB and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and 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 2021 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 2020/21 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 2020/21 audit in our Annual Audit Plan, which was presented to the audit committee on 4 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 continued to monitor the impact of additional costs as a result of the pandemic. The Scottish Government has met the costs incurred to date, along with an allocation carried forward for the financial year 2021/22. As a result, we have not identified any new financial risks but additional focus was given to significant disclosures, including how the annual governance statement captured key changes. 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 £1.5 million. We have considered whether any change to our materiality was required in light of the financial impact of the response to 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

**£1.5 million**

1% of the IJB's net expenditure

Performance Materiality

**£1.13 million**

Materiality at an individual account level

Reporting Threshold

**£120,000**

Level that we will report to committee

As we outline 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.

Our wider scope work was informed by the Midlothian LAN. The LAN concluded that no additional scrutiny requirements were identified and that no local scrutiny plan was required.

### **Wider Scope audit**

Our responsibilities extend beyond the audit of the financial statements. Our plan was informed by a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the various councils. The LAN met on 1 March 2021 to discuss the 2021/22 shared risk assessment. The LAN concluded that no additional scrutiny requirements were identified and that no local scrutiny plan was required.

As a result of 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 three areas of risk in relation to the wider scope dimensions:

- ▶ Continuing financial pressures, including the uncertainty about the longer term impact on the IJB and its partners as a result of Covid19;
- ▶ The need to demonstrate improvements in the pace of integration; and
- ▶ Demonstrating the achievement of value for money.

Our findings are summarised in Section 3 of this report.

### **Best Value**

Our Annual Audit Plan outlined a requirement to comment on how effectively the IJB demonstrates that it meets its Best Value responsibilities. 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 2020/21 in Section 3 of this report.

## Looking ahead

### Independent Review of Adult Social Care

The delivery of social care support is currently the statutory responsibility of local government under the 1968 Social Work (Scotland) Act. The Scottish Government has a key role in setting policies and legislation on social care and therefore has a role in supporting improvement and ensuring positive outcomes for people across the country by having the right policy and legislation in place.

In February 2021 the *Independent Review of Adult Social Care* report (“the Feeley Review”) was published. It concluded that whilst there were strengths of Scotland’s social care system it needed revision and redesign to enable a step change in the outcomes for the people in receipt of care. The review provided a number of high level areas of focus:

- ▶ Ensuring that care is person-centred, human rights based, and is seen as an investment in society;
- ▶ Making Scottish Ministers responsible for the delivery of social care support, with the establishment of a National Care Service to deliver and oversee integration, improvement and best practices across health and social care services;
- ▶ Changing local IJBs to be the delivery arm of the National Care Service, funded directly from the Scottish Government;
- ▶ Nurturing and strengthening of the workforce; and
- ▶ Greater recognition and support for unpaid carers.

The Scottish Government launched a consultation on the review findings in August 2021. The outcomes of the review could have a significant impact on the work of the IJB, including accountability and funding arrangements.

### CIPFA Financial Management Code

In 2019, CIPFA launched the Financial Management Code (the FM Code) to provide guidance for good and sustainable financial management in local authorities. Strong financial management is an essential part of ensuring public sector finances are sustainable. The FM Code provides guidance for good and sustainable financial management and will provide 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. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

By complying with the principles and standards within the FM Code authorities will be able to demonstrate their financial sustainability. The Code came into effect from April 2020, in recognition of the pressures facing local authorities, 2021/22 will be the first full compliance year. This allows authorities a shadow year to work towards full implementation.

# Financial Statements audit

## Introduction

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

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

The plan highlighted one area that we identified as a fraud risk relating to the 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 Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the IJB to prepare financial statements, ensure their availability for public inspection and consideration by the board or a committee with an audit or governance remit. Schedule 6 of the Coronavirus (Scotland) Act 2020 allowed the IJB to postpone submitting the unaudited financial statements to auditors and publishing the audited financial statements until it was reasonably practicable to do so. Despite the pandemic, the Board complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 18 June 2021, in line with planned timescales.

The inspection notice was published by Midlothian Council, on the IJB's behalf, on 22 June 2021, 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.

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

# Our audit opinion

## Element of opinion

## Basis of our opinion

## Conclusions

<p>Financial statements</p> <ul style="list-style-type: none"> <li>▶ Truth and fairness of the state of affairs of the IJB at 31 March 2021 and its income and expenditure for the year then ended</li> <li>▶ Financial statements in accordance with the relevant financial reporting framework and 2020/21 Code</li> </ul>	<p>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.</p> <p>We are satisfied that accounting policies are appropriate and estimates are reasonable</p> <p>We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.</p>	<p>We have issued an unqualified audit opinion on the 2020/21 financial statements of the IJB.</p>
<p>Going concern</p> <ul style="list-style-type: none"> <li>▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting</li> </ul>	<p>We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis</p> <p>Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.</p>	<p>In accordance with the work reported on page 13, we have not identified any material uncertainties.</p>
<p>Other information</p> <ul style="list-style-type: none"> <li>▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit</li> </ul>	<p>The Chief Finance Officer is responsible for other information, included in the financial statements.</p> <p>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.</p>	<p>We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.</p>
<p>Matters prescribed by the Accounts Commission</p> <ul style="list-style-type: none"> <li>▶ Audited part of remuneration report has been properly prepared.</li> <li>▶ Management commentary / annual governance statement are consistent with the financial statements and have been properly prepared.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Reviewing the content of narrative disclosures to information known to us.</li> <li>▶ Our assessment of the Annual Governance Statement against the Delivering Good Governance Code.</li> </ul>	<p>We have issued an unqualified opinion.</p>
<p>Matters on which we are required to report by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>▶ there has been a failure to achieve a prescribed financial objective,</li> <li>▶ adequate accounting records have been kept,</li> <li>▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or</li> <li>▶ we have not received the information we require.</li> </ul>	<p>We have no matters to report.</p>

# Significant and fraud audit risks

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

### 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 2020/21 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

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. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the IJB and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements, including the expected impact on the Five Year Financial Plan.

The IJB received confirmation that the Scottish Government would meet all additional costs and unachieved savings associated with the pandemic. Further funding was also confirmed in February 2021 to provide additional support for winter pressures and ongoing costs. As a result, the funding 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 continues to prepare and submit mobilisation plans to the Scottish Government to reflect the expected impact on the financial position in 2021/22. 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 25.

## 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 we worked with the IJB to self-assess arrangements against Audit Scotland's guidance on Best Value for IJBs. While this work is ongoing as part of a wider programme of self-evaluation, we have drawn upon this work to form a view on how effectively the IJB can demonstrate that it meets its Best Value responsibilities. The results of this assessment are outlined on page 25.

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

We are satisfied that the core financial management arrangements established by the IJB are appropriate, including the financial monitoring reporting to the Board. The IJB has recognised a requirement to demonstrate compliance with the CIPFA Financial Management code by 1 April 2021.

Significant uncertainty about funding was eased when the IJB received confirmation that the Scottish Government would fund all of the additional costs related to the pandemic. The level of general fund reserves has significantly increased as a result of additional allocations from the Scottish Government related to anticipated Covid-19 costs. These reserves have mostly been earmarked to meet the future costs of Covid-19, however the general uncommitted reserve has also increased significantly at the yearend to £4.7 million (2020: £3 million).

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## Financial Outturn

The IJB's financial outturn has been significantly impacted by the global pandemic. The IJB has continued to work with partners to submit mobilisation returns to the Scottish Government. Additional costs related to financial sustainability payments to social care providers and the staffing implications of sickness, shielding and requirements to self-isolate. Scottish Government has provided funding of £10 million for Covid-19 costs, which allowed £5.5 million of funding to be carried forward to meet additional costs in 2021/22.

The IJB's financial monitoring reports (Exhibit 1) note that as a result of the additional funding, an underspend in the provision of services of £8.372 million was recorded (2019/20: £0.743 million). Underspends were recorded against all areas of the budget, with the exception of set aside services, and were transferred to reserves.

### Exhibit 1: As a result of allocations from the Scottish Government, the IJB recorded a significant underspend against budget in 2020/21

	Budget £'000	Expenditure £'000	(Underspend) / Overspend £'000
Local Health Services	76,001	69,132	(6,869)
Hosted Health Services	25,387	25,105	(282)
Set Aside	19,000	19,029	29
Social Care	44,985	43,735	(1,250)
<b>TOTAL</b>	<b>165,373</b>	<b>157,001</b>	<b>8,372</b>

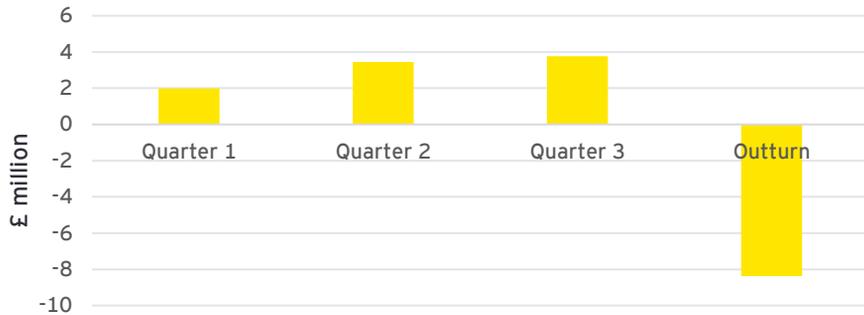
Source: Midlothian IJB 2020/21 Financial Statements

### Financial Monitoring throughout the pandemic

The IJB worked closely with partners to set an indicative budget in March 2020, which was subsequently formalised in April 2020. The budget setting process recognised the challenging financial climate facing both partners before the impact of Covid-19 was known and the resulting financial gap. As a result, the delivery of a balanced budget relied upon significant savings to be delivered in 2020/21, estimated at £1.8 million.

The IJB prepares its financial statement and budget monitoring reports by consolidating financial data from its partners, Midlothian 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. As Exhibit 2 notes, the financial forecasts presented to the Board reflected the level of uncertainty facing the IJB prior to confirmation of Scottish Government funding to support Covid costs.

**Exhibit 2: The IJB predicted significant overspends throughout the financial year until additional funding from the Scottish Government was confirmed**



Source: Financial Monitoring Reports to the IJB 2020/21

Additional costs identified throughout the year included staffing costs associated with sickness or self-isolation absence, extra beds within the Midlothian Community Hospital, additional community nursing and higher supplies costs. The IJB continued to work with partners to submit mobilisation plans to the Scottish Government, which included estimates of the financial impact of the pandemic. These reflected the difficulty in delivering planned financial recovery actions and the costs of non-achievement of savings were therefore met by the Scottish Government. There remains uncertainty about the extent of any future governmental support.

## IJB Reserves Policy

Like other IJB's, general reserves have increased significantly in 2021/22. Unearmarked balances held as contingency for the future totalled £3 million.

During 2019/20, the IJB reviewed its Reserves Strategy to ensure that it continues to reflect the risk profile and priorities of the organisation. The IJB considered that a Reserves Strategy of 2% of expenditure (around £2.8 million) continued to be appropriate. The IJB was able to achieve the target level in 2019/20, but recognised that uncertainty remained in relation to funding for the response to Covid-19.

Like other IJBs, the level of general fund reserves has significantly increased as a result of additional allocations from the Scottish Government related to anticipated Covid-19 and winter planning costs. The IJB reserves increased to £12.993 million in 2020/21 (2020: £4.621 million). These reserves have mostly been earmarked to meet the future costs of Covid-19, however the general uncommitted reserve has also increased significantly at the yearend to £4.721 million (2020: £3.004 million). The value of reserves is subject to annual review as part of the IJB's budget and strategic planning.

## CIPFA financial management code

In 2019, CIPFA launched the Financial Management Code ("the FM Code") to provide guidance for good and sustainable financial management in local authorities. The FM Code provides guidance for good and sustainable financial management and will provide 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 FM Code came into effect from April 2020, however 2021/22 will be the first full compliance year. The IJB has not yet adopted or self assessed compliance against the FM Code and there is therefore a risk that the IJB will not be able to demonstrate full compliance by the deadline. This has been identified as an area for improvement within the IJB's Annual Governance Statement.

# Financial Sustainability

While work has continued to develop a robust Medium Term Financial Plan, current planning continues to identify a significant budget gap in the medium term. Reporting to the Board on savings programmes should be reinstated to ensure that members have early visibility of financial pressures.

Work is underway to support the development of the updated Strategic Plan. An Interim Workforce Plan notes national concerns relating to recruitment and retention of staff in health and social care, and local difficulties in relation to a shortage of GPs and age profile of District Nurses.

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## Medium Term Financial Plan

The IJB considered the annual update of the Medium Term Financial Plan (MTFP) in December 2020. As we noted in 2019/20, further work is required to prepare a MTFP which demonstrates a balanced budget over the life of the Strategic Plan.

Refer to Appendix D, Recommendations 1 and 2: The process to update the MTFP is underway but in our view, reporting on the progress of savings programmes should be reinstated to ensure that the Board has early visibility of financial pressures.

As Exhibit 2 highlights, significant budget gaps were identified for each year of the plan, rising to £11.1 million in 2023/24. The quarterly monitoring reports stopped reporting on the progress of savings as a result of the impact of the pandemic in 2020/21. However, this reporting would allow the board to have visibility over areas which are behind expectations and the resulting financial pressures.

**Exhibit 2: The current MTFP projects a shortfall in funding for the 5-year period 2020/21 to 2024/25 estimated at over £29 million**

Projections	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Expenditure	137.429	140,526	144,300	148.185	152.183
Funding	(137,429)	(136,682)	(138.122)	(139.597)	(141.108)
Shortfall	-	3.844	6.178	8.588	11.075

Source: Midlothian IJB MTFP, December 2020

## Mobilisation Plans

As part of the Scottish Government's response to Covid-19, the IJB worked with partners to submit mobilisation plans, outlining the immediate and medium-term financial impact. The most recent mobilisation plan was submitted by the IJB in July 2021 and forecast additional costs of £6.2 million, including costs incurred during 2020/21 of £4.5 million.

The Scottish Government provided £10 million of funding in 2020/21. This reflected the funding requested within the IJB's Local Mobilisation Plan submission and a further £3.8 million in respect of winter planning and ongoing Covid related cost pressures.

## Strategic Planning

Under the Public Bodies (Joint Working) (Scotland) Act 2014, the Health and Social Care Partnership is required to publish a new Strategic Plan in 2022. The IJB commenced its review of the current Strategic Plan late in 2020. A series of key steps have been undertaken to date, including approval of the proposed vision and values, and updated strategic objectives for 2022-25. This allowed the Strategic Planning Group and local Planning Groups to begin consultation and engagement with stakeholders to inform the drafting of the updated plan. An updated Joint Needs Assessment is scheduled to be complete by end August 2021.

The first draft of the revised plan is expected to be considered by the IJB in December 2021, to allow public consultation to inform the final version, due in April 2022. The IJB has also continued to work with partners, including contributing to the Lothian Strategic Development Framework, to learn lessons from the global pandemic, and ensure that they plan for the longer term impact of Covid-19.

## Workforce Planning

The IJB has considered an interim Workforce Plan 2021/22 to support service delivery and financial planning. The plan was submitted to the Scottish Government in April 2021 and reflects the significant participation and engagement with staff groups. The plan focuses on:

- ▶ National concerns in relation to the recruitment and retention of health and social care staff;
- ▶ The expected workforce impact of Covid-19 in the short term, including the vaccination programme and managing sickness absence/self-isolation rates particularly in social care staffing;
- ▶ The need to respond to requirements of long Covid, including additional staffing in rehabilitation services such as occupational therapy and physiotherapy; and
- ▶ The need to reflect local concerns in relation to low GP numbers and the age profile of specific groups, including District Nurses.

All Health and Social Care Partnerships are required to submit 3-year Workforce Plans to the Scottish Government by 31 March 2022. Work is underway to map out the medium-term needs of the workforce, including rebalancing a lack of professional social work support caused by recruitment difficulties.

# Governance and Transparency

The key features of good governance at the IJB are in place and operating effectively, and remained so throughout 2020/21 despite the impact of lockdown arrangements. A self-assessment of the effectiveness of the Audit Committee highlighted minor development areas, which will be addressed in 2021/22. The IJB has disclosed areas for further improvement within the Annual Governance Statement.

Work to update the Integration Scheme remains ongoing and is scheduled to be completed by the end of the calendar year following delays to the initial review timetable due to Covid-19.

## 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 2021/22 including:

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

- ▶ Demonstrating links within the updated Strategic Plan to local and national objectives and alignment of Directions and Action Plans;
- ▶ Updating the Financial Strategy to address significant deficits indicated in the Medium Term Financial Plan 2020/21 - 2024/25;
- ▶ Demonstrating compliance with the CIPFA Financial Management Code by 1 April 2022;
- ▶ Further developing the Performance Management Framework to define and align performance measures to key priorities and outcomes of the Strategic Plan; and
- ▶ Developing a 3 year Workforce Plan which is aligned to the updated Strategic Plan.

We reviewed the AGS against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. As part of the audit process we did, however, work with management to ensure that disclosures met the requirements of *CIPFA Bulletin 06: Annual Governance Statements 2020/21*.

## Covid-19 governance arrangements

Like all other public bodies in Scotland, the IJB moved to revised governance arrangements at the beginning of the UK lockdown period. The IJB met virtually throughout the financial year. We noted that the Chief Officer reports on any decisions taken under delegation of powers. We were satisfied that the board maintained its schedule of business and attendance well throughout the pandemic.

The IJB's internal audit assurance report provides substantial assurance in respect of risk management, governance and internal control.

## Annual Assurance Report

The annual internal audit assurance report opinion and conclusion notes that Midlothian Health and Social Care Integration Joint Board's governance arrangements, risk management and systems of internal control are operating satisfactorily. Improvements made by management during the year have been hindered by the effects of dealing with the significant ongoing challenges presented by the Covid-19 pandemic.

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. An updated report will be provided to the Audit Committee in December 2021.

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.

## Audit Committee arrangements

In June 2021, the Audit and Risk Committee considered its annual assurance report. The report notes that the work of the Audit and Risk Committee provides assurance to the IJB in relation to a range of governance issues, including risk management and the effectiveness of internal control. Members of the Audit and Risk Committee conducted a self-assessment against CIPFA's 'Good Practice Principles Checklist' and 'Evaluation of Effectiveness Toolkit' in April 2021.

The self-assessment identified a number of areas of improvement to fulfil its remit more effectively, including:

- ▶ Using the Knowledge and Skills Framework to inform Committee Members' learning and development needs;
- ▶ Obtaining feedback on its performance from those who interact with the Committee; and
- ▶ The publication of an annual report (prepared in June 2021) to account for its performance and explain its work.

Partners have arrangements in place to update the IJBs integration scheme and submit to the Scottish Government for approval.

### Integration scheme review

Legislation requires that the Integration Scheme which governs the operations of the IJB is reviewed by the partners at least every five years. A review was scheduled to have been concluded by June 2020, and had begun at March 2020. Due to the impact of Covid-19 the review was not completed with Council and NHS resources prioritised for addressing the pandemic.

The current Integration Scheme will remain in place until the review process is completed and changes are approved by Scottish Ministers. An Integration Scheme oversight group has been established across the partners in Lothian with a timetable for review targeting draft proposals to the partner bodies in October and formal submission of the updated scheme to the Scottish Government by the end of 2021.

In the longer term, the Integration Scheme will have to be reconsidered to reflect the likely requirements of the Independent Review of Adult Social Care, and in particular the support services that the IJB will require from its partners.

# Value for Money

The IJB exercised powers granted by the Coronavirus (Scotland) Act 2020 regarding the delayed publishing of the Annual Performance Report for 2020/21.

Work is underway to improve the quality of performance reporting, and the IJB has recently agreed to establish a performance sub-group to support improved scrutiny arrangements.

The IJB has highlighted good progress within its analysis of performance against key improvement targets. Revised targets have been established.

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## Annual Performance Report

The IJB expected to be able to produce the Annual Performance Report by the normal statutory deadline of July 2021. However, as a result of concerns about the accuracy of data provided externally, the IJB exercised the powers granted to public authorities under the Coronavirus (Scotland) Act 2020 regarding the delayed publishing of the Annual Performance Report for 2020/21. The report is now expected to be published in September 2021.

## Performance Monitoring

In February 2019, the IJB established improvement goals to allow it to monitor key indicators 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.

A number of the IJB performance goals milestone target dates fell within the pandemic period. As a result, the IJB reviewed the improvement goals in April 2021. The review highlighted that a number of key indicators were achieved, including:

- ▶ The target to reduce Mental Health Long Stay Occupied Bed Days by 10% by April 2020 compared with 2017/18;
- ▶ Achieving a reduction in Delayed Discharge Occupied Bed Days by 20% by April 2020 (actual reduction was 44%); and
- ▶ Increasing the proportion of people over the age of 65 who are living in the community. Performance against this goal improved to 96.6%.

For a range of other indicators, the impact of the pandemic is not yet known, for example a short term reduction in Emergency Department attendances.

The IJB has also outlined planned improvements to performance reporting, including the introduction of dashboard visual reporting of performance against target.

The IJB has invested in improvements in performance reporting and analysis in 2021/22.

### Performance Management

In August 2021, the IJB agreed to allocate additional resource to improve the quality of performance reporting and analysis available to the board. The IJB approved the recruitment of a Programme Manager and Data Analyst to allow greater focus to be given to evaluate the impact of the Strategic Plan and Directions. We consider this to be a key step to allow the IJB to demonstrate that it is achieving Best Value.

The IJB has also agreed to the establishment of a Performance sub-group to allow additional scrutiny of current operational performance and inform the IJB's future strategic planning.

# Best Value: Our assessment

The IJB has established a significant programme of self-evaluation to inform the development of a revised Strategic Plan. A full consideration against Best Value criteria will be facilitated in October 2021.

We have drawn upon our wider scope work to conclude on the IJB's approach to Best Value. We note that the Board has continued to demonstrate strong partnership working and improved performance throughout the pandemic. As a result of the planned improvements to self evaluation and learning from others, we are satisfied that the IJB has established effective arrangements to allow it to demonstrate that it meets its Best Value responsibilities.

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## 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. As part of our annual audit plan, we indicated that we would support the IJB's work to conduct a self-assessment against guidance issued by Audit Scotland in March 2018, *Auditing Best Value - Integration Joint Boards*. The self-assessment includes consideration of:

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

The IJB has, however, established a programme of self-evaluation, *Matter of Focus*. This recognises that the partnership oversees very complex systems, and is responsible for the care of individuals with very complex needs. As a result, work is underway to enhance the data and analysis that is currently possible to achieve from performance monitoring systems, by bringing together data from NHS Lothian and Midlothian Council. The Improvement Service has been engaged to support the self-evaluation at board level, although work is underway to tailor their approach to the IJB and its needs.

Eight workshops will be held with board members in October 2021 to analyse performance against the Strategic Plan in greater detail, which will include consideration of value for money. The IJB has therefore elected to use these sessions to conduct a facilitated self-assessment against the questions in the Best Value guidance.

## Forming our judgement

In forming this judgement, we have drawn upon the work conducted in response to our wider scope responsibilities, and specifically:

- ▶ Our consideration of the IJB's financial planning processes;
- ▶ Governance arrangements, including monitoring reports on the use of resources and scrutiny arrangements;
- ▶ Our assessment of performance reporting to the board, and to the public via the Annual Performance Report 2020/21;
- ▶ The IJB's self-assessment arrangements, including its arrangements to learn from others, and planned work to review strategic objectives against current performance; and
- ▶ The ability of the IJB to direct change to deliver its Strategic Plan through the level of integration and the effectiveness of Directions.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the audit committee

D - Follow up of prior year recommendations

E - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

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

	2020/21	2019/20
<b>Component of fee:</b>		
<b>Total agreed auditor remuneration *</b>	<b>£18,850</b>	<b>£20,100</b>
<b>Audit Scotland fixed charges:</b>		
Pooled costs	£1,790	£1,790
Performance audit and best value	£5,650	£5,360
Audit support costs	£1,040	£1,110
<b>Total fee</b>	<b>£27,330</b>	<b>£28,360</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 2020 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](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><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: Prior Year Action Plan

This action plan summarises specific recommendations included within the 2019/20 Midlothian IJB Annual Audit Report. We have graded these findings according to our consideration of their priority for the IJB or management to action.

## Classification of recommendations

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

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

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

No	Findings and recommendation	Management response	Our Assessment in 2020/21
1	<p>We note that the IJB was unable to deliver all the planned transformational savings in 2019/20.</p> <p>The ability to deliver services differently, in line with the Directions, will be key to the success of the Strategic Plan.</p> <p>The IJB should ensure that review mechanisms are in place to track the delivery of planned improvements and savings.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The savings planned for 2019/20 were challenging given the increasing demographics and demand for services. Although not all savings delivered in full the target was met in year and reported to the IJB. Ongoing monitoring of savings will continue and be reported routinely to the IJB.</p> <p><b>Responsible officer:</b> Chief Finance Officer</p> <p><b>Implementation date:</b> March 2020</p>	<p>The impact of the pandemic meant that the IJB was unable to report upon the savings programme.</p> <p>Audit Assessment: <b>Not yet complete</b></p>
2	<p>The impact of the Covid-19 global pandemic has meant that the 5 Year Financial Plan now needs to be updated and reviewed. There remains uncertainty about the level of financial support that will be available from the Scottish Government.</p> <p>The IJB must review the 5 Year Financial Plan, and Strategic Plan to respond to the impact of the global pandemic. This should include an assessment about the appropriateness of the Reserves Policy.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>The 5 Year Financial Plan is currently being updated and as part of this will consider the Reserves Policy. The Directions are also being considered at the Strategic Planning Group for the impact of the pandemic.</p> <p><b>Responsible officer:</b> Chief Finance Officer /Integration Manager</p> <p><b>Implementation date:</b> March 2020</p>	<p>The 5 Year Financial Plan was considered by the Board in December 2020. Further work has commenced to review the MTFP in light of ongoing Covid-19 costs and the impact on partners.</p> <p>Audit Assessment: <b>In progress</b></p>

## Classification of recommendations

No	Findings and recommendation	Management response	Our Assessment in 2020/21
	<p><b>Grade 1:</b> Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.</p>	<p><b>Grade 2:</b> 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.</p>	<p><b>Grade 3:</b> Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.</p>
3	<p>The IJB has not yet conducted a self-assessment against guidance issued by Audit Scotland in March 2018, <i>Auditing Best Value - Integration Joint Boards</i>.</p> <p>The IJB should conduct a self-assessment against Best Value guidance to allow it to demonstrate to the Board key requirements are in place.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Work in this area has started but has been paused due to supporting the response to the pandemic. We will look to undertake this at a future Audit &amp; Risk Committee.</p> <p><b>Responsible officer:</b> Chief Finance Officer</p> <p><b>Implementation date:</b> March 2020</p>	<p>As we note within Section 4 of this report, the self assessment is underway as part of a wider programme of self-evaluation.</p> <p>Audit Assessment: <b>In progress</b></p>

# Appendix E: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the IJB, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB			
MAR	<ul style="list-style-type: none"> <li>Audit planning; setting scope and strategy for the 2020/21 audit</li> <li>LAN meetings held with other scrutiny partners</li> </ul>	Annual Audit Plan	March 2021
APR			
MAY			
JUN			
JUL	<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Audit clearance meeting	August 2021
AUG			
SEP	<ul style="list-style-type: none"> <li>Conclude on results of audit procedures</li> <li>Issue opinion on the IJB's financial statements</li> </ul>	Certify Annual Financial Statements  Issue Annual Audit Report	September 2021
OCT			
NOV			

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