



# Falkirk Integration Joint Board

**Annual Audit Plan  
Year ending 31 March 2022**

**March 2022**

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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission appointed us as external auditor of Falkirk Integration Joint Board (the IJB) for financial years 2016/17 to 2020/21. 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 (the Code), issued on 26 May 2016.

This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). 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 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.

# 1. Executive summary

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## Purpose of this report

The Accounts Commission appointed EY as the external auditor of Falkirk Integration Joint Board ("the IJB") for the five year period to 2020/21. 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.

This Annual Audit Plan, prepared for the benefit of IJB management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2022. This plan sets out the work we will perform to allow us to provide our independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value. After consideration by the IJB, the plan is provided to Audit Scotland and published on their website.

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the IJB and the auditor, more details of which are provided in Appendix A.

## Our independence:

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

## Financial statement audit

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of affairs of the IJB as at 31 March 2022 and of its income and expenditure for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2021/22 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the IJB along with the financial statements.

## Wider scope audit responsibilities

Under the Code, we are required to provide judgements and conclusions on the four dimensions of wider-scope public audit, as well as an assessment around the IJB's arrangements for securing Best Value:

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

# Audit dashboard

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and materiality.

## Key financial statement risks

There are no new financial statement risks identified for 2021/22:

### Significant Risk:

Risk of fraud in expenditure recognition, including through management override of control

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. For the IJB we consider this risk to manifest itself through the above revenue recognition risk around expenditure.

Materiality levels will be confirmed on completion of our detailed planning audit work. Indicative levels, based on prior year figures, have been set as follows:

Planning Materiality

**£2.5 million**

Materiality initially has been set at approximately 1% of expenditure for the year.

Tolerable Error

**£1.9 million**

Materiality at an individual account level, representing 75% of our planning materiality

Reportable differences

**£125,000**

Level of error that we will report to committee

We apply a lower level of materiality to the audited part of the Remuneration Report. Professional judgement is also applied to the materiality of related party transactions.

## Wider scope risks

We have updated our understanding of the risks impacting the IJB through discussions with management, review of relevant committee reports, and our knowledge of the environment in which the IJB is currently operating.

### Financial Sustainability:

Medium term financial planning

The IJB's Medium Term Financial Plan is expected to be updated in 2022 to reflect the significant changes that have impacted the Board and its partners as a result of the global pandemic. The last MTFP was approved in December 2019 and projected budget shortfalls for the five year period, totalling £25.9 million over the 5 years of the plan.

We will consider the pace and extent of progress by the IJB to address overall financial sustainability as part of our audit work, including the IJB's achievement of planned savings.

## 2. Sector developments

The most recent Falkirk Scrutiny Plan highlighted no significant risks in relation to the IJB. There is no intention to produce a revised local scrutiny plan in 2021/22 but the up to date scrutiny programme is available on Audit Scotland's website: [Scrutiny improvement | Audit Scotland \(audit-scotland.gov.uk\)](https://audit-scotland.gov.uk)

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the IJB operates to inform our audit approach.

### Scrutiny

A National Scrutiny Plan (NSP) was most recently published by the Accounts Commission (on behalf of the Strategic Scrutiny Group) in September 2019. The NSP summarises all planned and announced strategic scrutiny activity from September 2019 in each of Scotland's 32 councils. Given the continuing pressure from the pandemic, there is no intention to publish an NSP in 2021/22.

While there is no formal Shared Risk Assessment (SRA) process for integration authorities, the Local Area Network (LAN) for Falkirk Council will consider health and social care outcomes, governance and partnership working as part of their assessment of the local authority. We are the appointed auditor of Falkirk Council and act as the LAN lead for the Falkirk Council SRA. The 2021/22 LAN meeting will be held in March 2022 and will involve representatives of all the scrutiny bodies who engage with the Council. Where necessary, our audit planning will be updated to respond to any new areas of risk that impact the IJB.

### Political environment

Continuing uncertainty exists around a number of factors in the foreseeable future including:

- ▶ **Covid-19 Pandemic:** although the pandemic continues to dominate the political environment, focus is shifting towards creating a sustainable long-term approach to living alongside Covid-19 and the potential lessons to be learned.
- ▶ **Scottish Local Government Elections:** Scottish elections are due to be held on 5 May 2022.
- ▶ **Scotland Independence Referendum:** there is continued uncertainty regarding whether another Scottish independence referendum will be held.

We will continue to review how the IJB prepares for, and responds to, these factors throughout the audit year.

## **Overview Reports**

The Accounts Commission (“the Commission”) published their Local Government in Scotland Overview 2021 report in May 2021. As a key partner to the IJB, councils are responsible for the operational delivery and funding of delegated social care functions, therefore many of the key recommendations are relevant to the IJB.

Key messages highlighted by this report included:

- ▶ Councils continue to face significant financial challenges, and these have been exacerbated by the pandemic.
- ▶ The Scottish Government has provided substantial additional financial support, but the nature and timing of funding has created further challenges for councils.
- ▶ The Covid-19 pandemic is having a profound impact on all aspects of society, including the economy, jobs and the physical and mental health of the public.
- ▶ Overall, the workforce demonstrated versatility to take on new roles.

As part of our work around the value for money dimension of wider scope, we will continue to review the IJB's assessment of its performance, including progress in shifting the balance of care and in delivering transformation.

## **Budget setting process 2022/23**

The Scottish Budget for 2022 to 2023 was published on 9 December 2021. Additional funding of a further £120 million was subsequently announced on 27 January 2022 for local authorities and on 2 February 2022, the Workforce Wellbeing Fund for Adult Social Work and Social Care was established. This Fund of £1 million provides grants of up to £10,000 to improve wellbeing of the workforce.

IJBs are dependent on agreeing budgets with their partners before the start of the financial year. Due to some uncertainties within the Scottish Budget announcement, there is a risk of a delay in budget decisions at partner organisations, which will have a corresponding impact on operational and financial planning at the IJB.

As part of discussions with management we understand the IJB continues to separately identify costs related to Covid-19 as part of the 2022/23 budget setting process, in addition to its core income and expenditure activity. We will continue to consider the IJB's approach to budget setting as part of our wider scope work on Financial Management in 2021/22.

## **Independent Review of Adult Social Care in Scotland**

In February 2021, the *Independent Review of Adult Social Care* report was published. It concluded that whilst there were strengths in 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.

In response to this, the Scottish Government launched a consultation on a National Care Service between August and November 2021. Following a workshop with the Strategic Planning Group and engagement sessions with staff and partners, the IJB submitted a response to the Scottish Government on 2 November 2021.

The outcome of the consultation could have significant impact on the work of the IJB, including accountability and funding arrangements. As part of the 2021/22 audit, we will continue to liaise with management to understand any potential impact that this may have on the IJB in the short and medium term.

### **Social Care briefing paper**

Audit Scotland published a briefing paper on Social Care on 27 January 2022 which summarises the key challenges and recent progress in social care in Scotland against a number of themes. The paper is intended to help inform the Scottish Government and stakeholders' immediate planning for social care alongside the longer-term plans for reform set out in the National Care Service consultation.

Key messages highlighted by the Auditor General included:

- ▶ There are huge challenges facing the sustainability of social care, with the pressures of increasing demand and demographic change growing.
- ▶ The workforce is under immense pressure.
- ▶ There are around 700,000 unpaid carers who provide most of the social care support in Scotland, with most not knowing their rights under the Carers (Scotland) Act 2016.
- ▶ Commissioning tends to focus on cost rather than quality or outcomes.
- ▶ Capacity and cultural differences are impacting leadership.

The briefing paper acknowledges the Scottish Government's plans for social care reform, stating "implementing reform will take significant work, but some things cannot wait".

# 3. Financial Statement Risks

## **Introduction**

The IJB's annual financial statements enables the IJB to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2021/22 Code of Practice on Local Authority Accounting in the United Kingdom.

## **Audit Opinion**

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2021/22 Code of the state of affairs of the IJB as at 31 March 2022 and of its income and expenditure for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2021/22 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

We also review and report on the consistency of the other information prepared and published by the IJB along with its financial statements.

## **Other Statutory Information**

We will consider the other statutory information within the context of current and future guidance. In particular we need to consider how the Covid-19 pandemic has impacted the IJB and how this is reported in the financial statement narrative.

As in previous years, the management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council. We will continue to work with the Chief Finance Officer to support the ongoing enhancement in financial statements disclosures, including narrative commentary, in advance of the publication of the 2021/22 financial statements.

## **Audit Approach**

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the IJB, including assurances from the auditors of the constituent councils and health boards in respect of the controls in place and the amounts included in the IJB financial statements.
- ▶ Substantive tests of detail of transactions and amounts. For 2021/22 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the committee and reporting whether it is materially inconsistent with our understanding and the financial statements.

## **Materiality**

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements.

Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss expectations regarding our detection of misstatements in the financial statements if required.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## **Materiality Level**

<b>Planning Materiality £2.5 million</b>	<b>Planning materiality (PM)</b> - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For initial planning purposes, materiality for 2020/21 has been set at £2.5 million. This represents approximately 1% of the IJB's projected expenditure for the year.
<b>Tolerable Error £1.9 million</b>	<b>Tolerable error (TE)</b> - materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £1.9 million which represents 75% of planning materiality.
<b>Summary of Audit Differences £0.125 million</b>	<b>Summary of Audit Differences (SAD) Nominal amount</b> - the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have set it at £125,000 which represents 5% of planning materiality.

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

Based on these considerations, we apply lower materiality levels to the following areas we consider to be material by nature rather than size:

- ▶ Remuneration Report; and
- ▶ Related Party Transactions.

We will therefore review the disclosures related to the above areas in greater detail compared to the materiality thresholds outlined above.

## **Covid-19 Pandemic - continued impact on Financial Statements and audit process**

We outlined in previous reports how the impact of Covid-19 significantly impacts both the financial statements preparation and audit process, and continues to do so:

- ▶ The governance statement should capture how the control environment has changed during the period of the pandemic, and steps being taken by the IJB to maintain a robust control environment during the disruption.
- ▶ The management commentary should clearly summarise the impact of Covid-19 on both the financial performance and future planning, and the impact on key statutory performance indicators.
- ▶ Significant events after the balance sheet date require to be disclosed within the financial statements, either through the post balance sheet events note or in specific accounting notes or the management commentary and governance statement.

## **Accounting policies**

Covid-19 will continue to have a potentially material impact on the financial statements, including how the IJB accounts for significant income and expenditure. Any specific government support may qualify as a new transaction stream and require development of new accounting policies.

## **Impact on Audit Process**

Audit Scotland has set its reporting deadline for local government bodies in 2021/22 at 31 October 2022. This will continue to be reviewed through the year as circumstances change, however we have outlined the planned timing for the key deliverables of the audit process in Appendix D, and expect to meet all current deadlines. We will continue to work closely with management to review logistics for the audit in 2021/22.

## **Going Concern**

In accordance with the CIPFA Code of Practice on Local Government Accounting, the IJB prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. CIPFA bulletin 09 (issued at closure of the 2020/21 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.

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. We continue to place 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.

# Significant Risks

We have set out one significant risk identified for the current year audit along with the rationale and expected audit approach. The risk identified may change to reflect any significant findings or subsequent issues we identify during the audit.

## Risk of fraud in expenditure recognition, including through management override of control

Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which means we also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Other than expenditure recognition, we have not identified any specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

As a result of the nature of funding to the IJB from the Council or NHS, we rebut the assumed fraud risk in respect of the income.

For expenditure we associate the recognition risk to the completeness and occurrence of expenditure incurred by the IJB in commissioning services, and any associated creditor balances held by the IJB at yearend, in particular through management override of controls.

### Work we will perform:

- ▶ Inquiry of management about risks of fraud and the controls to address those risks.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Identifying any further risks of fraud then determining an appropriate audit strategy to address those identified risks of fraud.
- ▶ Challenging management around how the IJB gains assurance over the expenditure incurred by its partner bodies, so that it can account for the recognition of expenditure to those bodies.
- ▶ Substantively test income and expenditure transactions as appropriate and material, in particular in respect of any reserve funding held by the IJB.
- ▶ Consideration of the impact of Covid-19 on revenue, in particular new revenue streams and accrued income due to receipt of grant income, and its accounting arrangements against existing policies and anticipated updated LASAAC guidance.
- ▶ Obtaining supporting documentation through independent confirmations of the expenditure incurred by the IJB's partners and their auditors, in line with the protocols set out by Audit Scotland for 2021/22 audits.
- ▶ Performing mandatory procedures including testing of all material journal entries and other adjustments in the preparation of the financial statements.

## 4. Wider scope audit risks

The Code sets out the four dimension that comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money. The Accounts Commission has also set five strategic Audit Priorities in its 2019-24 strategy. In 2021/22 auditors are not specifically asked to consider and report on these through our audit work, however we will continue to consider them as part of our wider scope work.

As part of our risk assessment procedures, we have reviewed each dimension to assess potential areas of risk. We set out our areas of focus, along with specific significant risks relating to each dimension below.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment of and assurance over the achievement of Best Value.

We will include commentary within our Annual Audit Report on how the IJB demonstrates that it is meeting its Best Value duties, in line with Audit Scotland planning guidance.

Audit dimension	Significant risk	Work we will perform in 2021/22
<p><b>Financial sustainability:</b> Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.</p>	Medium term financial planning	<p>The latest financial report to the IJB reported an overspend of £0.398m for the 6-month period ending 30 September 2021, primarily due to ongoing pressure within set aside and primary care services. However, a break-even position is anticipated to be achieved by the year end.</p> <p>A recurring savings target of £6.091m was identified for 2021/22, with savings of £1.291m being attained within the first 6 months. At the end of September, it was estimated that £1.183m of the planned savings programme would be delayed due to Covid. Work is underway to provide clarity on set aside arrangements, and to deliver a primary prescribing recovery plan in light of the recurring overspend. It is likely that any associated savings will not be delivered until 2022/23.</p> <p>The IJB's Medium Term Financial Plan is expected to be updated in 2022 to reflect the significant changes that have impacted the Board and its partners as a result of the global pandemic. The last MTFP was approved in December 2019 and projected budget shortfalls for the five year period, totalling £25.9 million over the 5 years of the plan.</p> <p>We will consider the pace and extent of progress by the IJB to address overall financial sustainability as part of our audit work, including the IJB's achievement of planned savings.</p>

Audit dimension	Significant risk	Work we will perform in 2021/22
<p><b>Financial management:</b> considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	No specific additional audit focus	<p>In our 2020/21 Annual Audit Report we concluded that 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. However, the response to the pandemic meant that planned savings could not be delivered. As in prior years, the IJB relied on an annual risk sharing agreement to secure one-off additional funding to breakeven.</p> <p>We will continue to review the outturn position against the forecasts produced during the year to inform our view on the robustness of financial management and monitoring information. There will be continued focus regarding the impact of Covid-19 on the IJB's financial management arrangements, including remote working.</p> <p>We will also consider the IJB's response to ensure compliance with the CIPFA Financial Management Code. This will include the arrangements in place for key corporate support functions such as procurement and risk management.</p>
<p><b>Governance and transparency:</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	No specific additional audit focus	<p>In our 2020/21 Annual Audit Report we concluded that governance arrangements worked well throughout the year, despite the impact of lockdown arrangements. The IJB made key improvements to the effectiveness of partnership working throughout the pandemic. However, in its fifth year of operation, there remains significant services not yet fully integrated.</p> <p>Our audit strategy for 2021/22 will also consider:</p> <ul style="list-style-type: none"> <li>▶ Progress made to agree the Integration Scheme, including the risk sharing agreement between partners;</li> <li>▶ How the IJB demonstrates that governance arrangements are appropriate and continuing to operate effectively, particularly in light of the impact of the Covid-19 pandemic on working arrangements;</li> <li>▶ Whether there is effective scrutiny, challenge and transparency on decision making and financial and performance reports;</li> <li>▶ If the Annual Governance Statement complete and reflects key findings from audit, scrutiny and inspection; and</li> <li>▶ Whether adequate progress has been made against audit recommendations.</li> </ul>

Audit dimension	Significant risk	Work we will perform in 2021/22
<p><b>Value for money:</b> considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.</p>	<p>No specific additional audit focus</p>	<p>In 2020/21, we noted that the IJB exercised powers granted by the Coronavirus (Scotland) Act 2020 regarding the delayed publication of the Annual Performance Report. Our analysis of performance reporting highlighted the impact of the pandemic on some indicators, but noted that overall the IJB reported maintained or improved performance in areas related to positive experiences of care. We concluded that key steps were taken to shift the balance of care, and changes were beginning to emerge in activity data, but the corresponding shift in financial resources was less clear.</p> <p>We will consider how the IJB is addressing value for money in relation to the impact of Covid-19, specifically in relation to the potential impact on performance reporting measures.</p> <p>Our audit strategy for 2021/22 will consider:</p> <ul style="list-style-type: none"> <li>▶ How the IJB is demonstrating the impact of integration.</li> <li>▶ The effectiveness of plans in improving the outcomes for local people.</li> <li>▶ How the integration partners are working together to deliver integration reform, including the overall pace and scale of change.</li> </ul> <p>We will also review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations, such as reports from the Care Inspectorate.</p>

## **Best Value**

In 2020/21, we completed an assessment of the IJB's status against best value considerations, as outlined in Audit Scotland Guidance; *Auditing Best Value - Integration Joint Boards*. Our assessment reflected our wider scope findings that the Board had taken strong steps in 2020/21 to shift the balance of care in Falkirk and begin to improve performance as a result of integration. However, the ability to fulfil the aims of the Strategic Plan and demonstrate Best Value continued to be impacted by delays in the integration of key services.

Under the 2016 Code of Audit Practice, we are required to comment on how effectively the IJB demonstrates that it meets its Best Value responsibilities. For the 2021/22 audit, we will continue to consider the IJB's arrangements against the guidance issued by Audit Scotland.

The 2021/22 audit will be the final audit under the 2016 Code. This will be replaced by the 2021 Code for the 2022/23 financial year, which will apply further reporting requirements for Best Value. Where previously only applicable to councils, the 2021 Code extends the requirement of the Controller of Audit to report to the Accounts Commission at least once over the five-year audit appointment on the body's performance on its Best Value duty to audits of Integration Joint Boards.

A photograph of the Falkirk Wheel, a rotating boat lift, at sunset. The structure features a series of concentric rings that rotate to move boats between different water levels. The sky is a warm orange and yellow, reflecting off the water and the metallic surfaces of the wheel. The surrounding landscape includes green fields and hills in the distance.

# Appendices

- A - Code of Audit Practice: responsibilities
- B - Independence and audit quality
- C - Required communications with the Audit and Risk Committee
- D - Timing and deliverables of the audit
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# 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 Report

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"><li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li><li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li><li>▶ The overall assessment of threats and safeguards;</li><li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li><li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</li></ul>	<ul style="list-style-type: none"><li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li><li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li><li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li><li>▶ Written confirmation that all covered persons are independent;</li><li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li><li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li><li>▶ An opportunity to discuss auditor independence issues.</li></ul>

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

# Appendix C: Required Communications

Required communication	Our reporting to you
<b>Terms of engagement / Our responsibilities</b>  Confirmation by the Audit, Risk and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.  Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice
<b>Planning and audit approach</b>  Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
<b>Significant findings from the audit</b>  <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>	Annual Audit Plan Annual Audit Report
<b>Going concern</b>  Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:  <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Annual Audit Report
<b>Misstatements</b>  <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>	Annual Audit Report
<b>Fraud</b>  <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit, Risk and Governance 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>	Annual Audit Report
<b>Consideration of laws and regulations</b>  <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 Audit, Risk and Governance Committee may be aware of</li> </ul>	Annual Audit Report or as occurring if material.

Required communication	Our reporting to you
<b>Related parties</b>	Annual Audit Report or as occurring if material.
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	
<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>	
<b>Independence</b>	Annual Audit Plan
Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence	Annual Audit Report
Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:	
<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>	
<b>Internal controls</b>	Annual Audit Report
Significant deficiencies in internal controls identified during the audit	
<b>Representations</b>	Annual Audit Report
We will request written representations from management and/or those charged with governance.	
<b>Subsequent events</b>	Annual Audit Report
Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	
<b>Material inconsistencies and misstatements</b>	Annual Audit Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	
<b>Fee Reporting</b>	
<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Annual Audit Plan Annual Audit Report

# Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the IJB, in accordance with the most recent planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 20221/22 audit cycle. The timetable will be subject to ongoing consideration of the impact of the Covid-19 pandemic.

	Audit Activity	Deliverable	Timing
JAN			
FEB	► Audit planning; setting scope and strategy for the 2021/22 audit	Annual Audit Plan	March 2022
MAR			
APR	► Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information	We will continue to monitor Audit Scotland performance audit programme following Covid-19	Throughout 2022
MAY			
JUN			
JUL	► Year-end substantive audit fieldwork on unaudited financial statements	Audit clearance meeting	August 2022
AUG	► Conclude on results of audit procedures ► Issue opinion on the IJB's financial statements	Certify Annual Financial Statements Issue Annual Audit Report	September 2022
SEP			

# Appendix E: Audit fees

The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on '*Our Approach to setting audit fees*' ([http://www.audit-scotland.gov.uk/uploads/docs/um/audit\\_fee\\_approach.pdf](http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf)).

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

The expected fee for each body, which for 2021/22 has been set centrally by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit. Should any of these circumstances not be in place throughout the audit, it is expected that additional costs will be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland. Under this process, fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, or more with the approval of Audit Scotland.

We will continue to consider the impact of Covid-19 on the audit going forward. Should additional audit requirements arise we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the Audit Committee with our annual audit report.

# Appendix F: Additional audit information

In addition to the key areas of audit focus outlined within the plan, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

## Our responsibilities required by auditing standards

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the going concern basis of accounting.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Read other information contained in the financial statements, the Audit, Risk & Governance Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

## Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

## Audit Quality Framework / Annual Audit Quality Report

Audit Scotland are responsible for applying the Audit Quality Framework across all audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team responsible are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202021>

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report:  
[https://www.ey.com/en\\_uk/about-us/transparency-report-2021](https://www.ey.com/en_uk/about-us/transparency-report-2021)

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