

# Falkirk Integration Joint Board

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

1 October 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 Falkirk 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

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If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to 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 issued an unqualified audit opinion on the IJB's 2020/21 financial statements

## Financial Statements

We have concluded our audit of the financial statements of Falkirk Integration Joint Board (IJB or the Board) for the year ended 31 March 2021. The draft financial statements and supporting working papers were of a good quality, which is in line with previous years and there are no unadjusted differences that we are required to communicate. 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 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 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 a overall materiality of £2.4 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 £1.8 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 to conclude on the IJB's approach to Best Value. We note that the Board has 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 continues to be impacted by delays in the integration of key services.

<p><b>Financial Sustainability</b></p> <p>Our Annual Audit Plan identified a significant risk in relation to continued financial pressures. The IJB will update its MTFP in 2021/22, which will include plans to respond to a significant budget gap, along with the expected longer term impact of Covid-19 on services and on workforce planning.</p> <p>Significant steps have been taken to shift the balance of care in Falkirk, but key services such as Community Hospitals and Primary Care are not yet fully integrated and impact on the ability of the IJB to direct transformational change.</p>	<p><b>Governance and Transparency</b></p> <p>Governance arrangements worked well throughout 2020/21, despite the impact of lockdown arrangements. The IJB has made key improvements to the effectiveness of partnership working throughout the pandemic. However, in its fifth year of operation significant services have not yet fully integrated.</p> <p>Work to update the Integration Scheme remains ongoing and we consider that the risk sharing agreement and arrangements to provide support services will have a significant impact on the IJB's ability to deliver its priorities.</p>
RED	AMBER
<p><b>Financial Management</b></p> <p>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, as in prior years, the IJB has relied on an annual risk sharing agreement to secure one-off additional funding to breakeven.</p> <p>The level of general reserve has increased as a result of additional allocations from the Scottish Government. The IJB has also taken steps to increase the level of unearmarked reserves.</p>	<p><b>Value for Money</b></p> <p>The IJB exercised powers granted by the Coronavirus (Scotland) Act 2020 to delay the publishing of the annual performance report for 2020/21.</p> <p>Our analysis of performance reporting highlights the impact of the pandemic on some indicators, but maintained or improved performance overall in areas related to positive experiences of care.</p> <p>We noted that key steps have been taken to shift the balance of care, but whilst changes are beginning to emerge in activity data, the corresponding shift in financial resources is less clear.</p>
AMBER	AMBER

# 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 Falkirk 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 5 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 Report for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

### Application of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £2.4 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

**£2.4 million**

1% of the IJB's net expenditure

Performance Materiality

**£1.8 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.

## Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. 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 noted that we would consider the IJB's arrangements against guidance issued by Audit Scotland, Auditing Best Value - Integration Joint Boards (March 2018). Throughout summer 2021, the IJB participated in fieldwork to inform Audit Scotland's Best Value Assurance Report on Falkirk Council. This work is expected to be reported by January 2022. The interviews and documentation review has been used to support our assessment, along with the judgements and conclusions reached during our wider scope work. We outline our findings and 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 Falkirk Council, on the IJB's behalf, on 4 June 2021, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

## Audit Outcomes

One misstatement was identified by management in relation to a late adjustment for FHS income, totalling £0.38 million. This was adjusted between the funding and expenditure from NHS Forth Valley and there was no effect on the Comprehensive Income and Expenditure Statement or the IJB's reserves. Minor presentational and disclosure adjustments were made by management as a result of our 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 Falkirk Council and NHS Forth Valley, 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 Falkirk Council and NHS Forth Valley.
- 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 Forth Valley and Chief Finance Officer at Falkirk 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 Falkirk Council and NHS Forth Valley 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 Falkirk 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 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.

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

## Introduction

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 26.

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 also supported the Strategic Leadership Team to self-assess arrangements against Audit Scotland's guidance on Best Value for IJBs. 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 is outlined on page 26 and reflects our recommendations to support ongoing improvement actions.

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

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, some areas of health services recorded an overspend. The IJB has relied on an annual risk sharing agreement to secure one-off additional funding from NHS Forth Valley to breakeven. Further work is needed to resolve underlying matters within the set aside budget and the agreement of a sustainable approach to managing budgets within the Integration Scheme.

The level of general reserve has significantly increased as a result of additional allocations from the Scottish Government. The IJB has also taken steps to increase the level of unearmarked reserves.

## Financial Outturn

The IJB's financial outturn has been significantly impacted by the global pandemic. The IJB continued to submit mobilisation returns to the Scottish Government outlining the estimated £8.7 million financial impact of the pandemic on the partnership throughout 2020/21. 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 funding of £14.99 million for Covid-19 costs, along with a further £1.91 million for winter planning has allowed £8.2 million of funding to be carried forward to meet additional costs in 2021/22.

The IJB's financial monitoring reports (Exhibit 1) note that an overspend against budget was recorded in the provision of services of £1.86 million (2019/20: £2.619 million). As in previous years, a one-year risk sharing agreement meant that NHS Forth Valley met the additional costs of set aside (£1.49 million), and made an additional payment to the IJB of £0.578 million. An underspend recorded against social care services was transferred to reserves.

Exhibit 1: The IJB continued to record an overall overspend against budget in 2020/21

	Budget £'000	Expenditure £'000	(Underspend) / Overspend £'000
Large Hospital Services	29,629	39,119	1,490
Primary Healthcare Services	82,015	83,593	1,578
Social Care Services	103,643	103,436	(207)
Community Healthcare Services	40,668	39,667	(1,001)
<b>TOTAL</b>	<b>255,955</b>	<b>257,815</b>	<b>1,860</b>

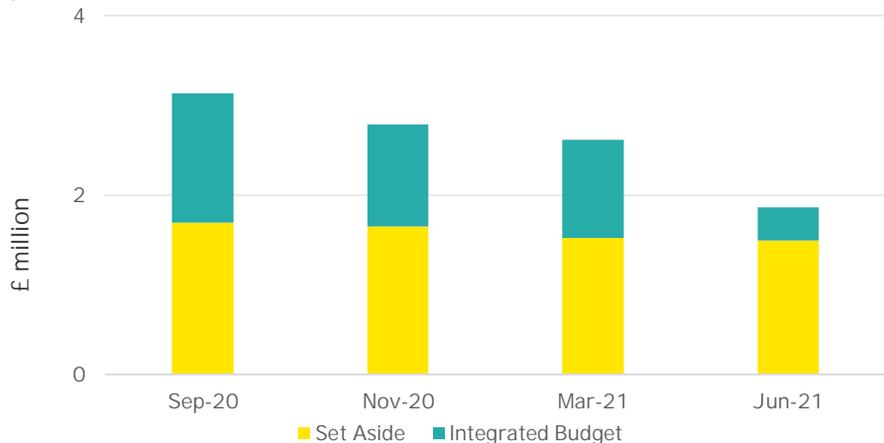
Source: Falkirk IJB 2020/21 Financial Statements

## Financial Monitoring throughout the pandemic

The IJB was unable to set a balanced budget prior to the start of the financial year. The interim budget approved in March 2020 outlined a funding gap of £6.688 million in 2020/21. The risk remained with NHS Forth Valley for Set Aside delegated budgets of £1.711 million, leaving a remaining gap to be bridged of £4.977 million.

As Exhibit 2 demonstrates, the IJB received regular financial monitoring reports throughout the pandemic, which outlined projected overspends excluding the impact of Covid-19. The costs included ongoing pay pressures, continuing overspends in prescribing and locum/sickness absence costs.

Exhibit 2: The IJB predicted significant overspends throughout the financial year



Source: Financial Monitoring Reports to the IJB 2020/21

In addition, the response to the global pandemic meant that the IJB was unable to achieve the savings as planned. The IJB delivered around £0.9 million of efficiency savings, representing around 18% of planned savings in 2020/21. Unachieved savings relating to Covid-19 totalled £2.7 million and were reported as part of mobilisation costs to the Scottish Government and were therefore met as part of the funding arrangements.

### Identification of savings

We note that, as in 2020/21, the annual budget for 2021/22 remains an interim budget due to difficulty in identifying and approving savings. The IJB continues to face a significant savings target of £6.1 million to allow it to achieve breakeven. The integrated budget requires savings of £4.66 million to be achieved, for which £5.3 million have been identified. However, further work is needed to implement statutory guidance and develop efficiency plans with NHS Forth Valley in relation to set aside services. A working group convened to progress this work in collaboration with NHS Forth Valley and Clackmannanshire and Stirling IJB was delayed as a result of the pandemic. The efficiency target for 2021/22 is £1.435 million.

As we note within Financial Sustainability, significant work has been undertaken to deliver efficiency savings within integrated services. However, further work is needed to reach a sustainable position for set aside services provided by NHS Forth Valley.

The IJB receive regular monitoring reports on the achievement of savings. This includes RAG rating for the status of savings options. The most recent report (June 2021) forecasts delivery of £5.1 million of savings in the integrated budget. Failure to achieve set aside savings is likely to require an additional payment from NHS Forth Valley. In our view, this approach is not sustainable.

#### Review of Reserves Policy

Like other IJBs, general reserves have increased significantly in 2021/22. Unearmarked balances held as contingency or a general reserve for future uncertainty remains relatively low, at £1.16 million.

Uncertainty during the financial year led to a review of the IJB's Reserves Policy. The Board agreed to amend the reserves policy to increase the maximum recommended contingency reserve balance from £0.44 million to £1.079 million. Unspent earmarked contingency funds were transferred to the contingency reserve to provide additional flexibility. The review also recommended that the general reserve balance be built up on a recurring basis, where possible, to support longer-term risk management arrangements.

In 2020/21, Scottish Government funding for pandemic costs meant that the IJB's reserves overall increased significantly, from £6.6 million to £18 million. Over 93% of the reserves are earmarked for planned projects, leaving £1.16 million as contingency.

# Financial Sustainability

Our Annual Audit Plan identified a significant risk in relation to continued financial pressures. The IJB will update its MTFP in 2021/22, which will include plans to respond to a significant budget gap, along with the expected longer term impact of Covid-19 on services and on workforce planning.

Significant steps have been taken to shift the balance of care in Falkirk, but key services such as Community Hospitals and Primary Care are not yet fully integrated and impact on the ability of the IJB to direct transformational change.

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## Strategic Planning

In June 2021, the IJB considered its strategic planning arrangements in light of the significant and ongoing impact of the pandemic. The current Strategic Plan 2019-22 will be subject to review by the Strategic Planning Group to assess whether the priorities remain the same or require revision. The review will be informed by:

- an updated Strategic Needs Assessment which will update the current understanding of the needs across Falkirk and how these have been changed as a result of the pandemic;
- the Participation and Engagement Strategy, and the learning from Listening Events with communities; and
- the results of the Community Planning Partnership's consultation in relation to the Falkirk Plan, 2021-2030.

Significant progress has been made to shift the balance of care in 2020/21, which allows the IJB to demonstrate the impact of integration.

Despite the lockdown arrangements and significant financial and operational impact, the IJB made strong progress during 2020/21 to change the way health and social care services are delivered. In November 2020, following consultation with resident and other stakeholders, the IJB agreed to close Torwoodhall. Torwoodhall was one of the oldest residential facilities in Falkirk and a review had noted concerns, including the difficulties to maintain infection prevention and control, particularly in response to the Covid-19 pandemic. The review concluded that the facility was no longer able to meet residents current and future care needs.

The closure is consistent with the aims of the Strategic Plan to plan health and social care needs, by aligning capacity to the projected demand for care home spaces. Since the closure decision was taken, the IJB has supported significant engagement with residents, their families and staff to support the transition to new care arrangements. Individual reviews were carried out to ensure that needs are met and concerns were allayed. This has included close working with Localities Teams to ensure that all residents were well supported by their key workers. Torwoodhall Care Home closed in April 2021 and the building has been handed back to Falkirk Council to form part of their strategic property review. Gross savings from the closure are estimated at £1.2 million per annum.

The Falkirk Community Hospital remained, until recently, the responsibility of NHS Forth Valley. While the transfer of responsibility is not yet fully complete, the IJB has worked closely with the health board to develop a master plan for the site. The master planning exercise is underway, and is expected to conclude in September 2021, which will allow NHS Forth Valley to develop a business case for new and improved health and social care services and facilities in Falkirk.

This provides the IJB with an opportunity to develop and direct new models of care, in line with the aims of the Strategic Plan. The focus on Community Hospitals will also provide an opportunity to address significant priorities, including:

- Issues with the fabric of the building, including specific fire safety concerns at Falkirk Community Hospital;
- The level of delayed discharges at Falkirk and Bo'ness community hospitals, which account for around 80% of all delays and therefore mask improvements in performance at the acute hospital. Part of this performance is impacted by the current consultant fortnightly visiting arrangements which introduces an unnecessary delay in planned discharges for people who no longer had a clinical need to be there; and
- Progress to reflect the bed-based care modelling exercise that was carried out on behalf of the IJB in 2019/20 and will inform investment and future use of the hospitals to meet the needs of the Falkirk population. Work to date has allowed a 9 bed unit in Bo'ness hospital to be closed.

#### Medium Term Financial Planning

The IJB's Medium Term Financial Plan was approved in December 2019. At that time (Exhibit 2) the IJB identified the need to make significant savings, estimated at Both the NHS and the Council's MTFP continue assume significant savings from the IJB over the period.

The MTFP will be revised during 2021-22 as the IJB recognises the need to reflect partners financial planning expectations, the outcomes of the review of the IJB's strategic plan and estimates of the recurring cost impact of Covid-19.

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

Projections	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Expenditure	232.660	236.769	234.842	248.460	253.230
Funding	(225.636)	(232.258)	(239.195)	(234.667)	(248.344)
Shortfall	7.024	4.538	4.647	4.763	4.886

Source: Falkirk IJB MTFP, December 2019

#### Recommendation 1:

The IJB and its partners must ensure that planning and operational management responsibility is transferred for remaining services, including Primary Care, to allow the benefits of integration to be achieved.

An updated Medium Term Financial Plan will be considered by the IJB later in 2021.

### Efficiency savings

Prior to the impact of the pandemic, savings of £4.16 million were expected to be generated in 2020/21. The savings delivered were around £0.9 million due to the operational impact of Covid-19. The non-delivered of savings attributed to Covid-19 (£2.7 million) were funded by the Scottish Government.

Savings required in 2021/22 are £6.1 million, which is around £0.9 million less than anticipated in the MTFP, but represents around 2.5% of the IJB's expenditure. In our view, the level of savings required remain extremely challenging, particularly in light of the inability to fully direct operational planning for some key delegated functions.

### 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:

- The expected workforce impact of Covid-19 in the short term, including the vaccination programme and managing sickness absence/self-isolation rates;
- The need to respond to requirements of long Covid, including additional staffing in rehabilitation services such as occupational therapy and physiotherapy;
- Up to date plans for remobilisation, including the learning from increased remote consultations; and
- Supporting the physical and psychological wellbeing of the workforce throughout remobilisation and transformational plans.

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. Further work is needed to work with partners in NHS Forth Valley and Falkirk Council to support the development of longer term plans.

# Governance and Transparency

Governance arrangements worked well throughout 2020/21, despite the impact of lockdown arrangements. The IJB has made key improvements to the effectiveness of partnership working throughout the pandemic. However, in its fifth year of operation significant services have not yet fully integrated.

Work to update the Integration Scheme remains ongoing and we consider that the risk sharing agreement and arrangements to provide support services will have a significant impact on the IJB's ability to deliver its priorities.

## 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.

As Exhibit 3 notes, 3 of the 13 actions were completed as planned. However, the AGS noted that three of the actions were delayed due to Covid-19, which includes work on the set aside budget and approval of a revised Integration Scheme. These actions remain significant priorities for the IJB.

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

Exhibit 3: Progress against governance priorities for 2020/21

- Complete
- In progress
- Delayed



Source: Falkirk IJB Annual Governance Statement 2020/21

## Annual Governance Statement

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

We reviewed the Annual Governance Statement within the financial statements against the required guidance. The annual internal audit assurance report offers substantial assurance in respect of Falkirk IJB's overall arrangements for risk management, governance, and control for the year to 31 March 2021. While the ability to complete the IJB's internal audit plan for 2020/21 was impacted by lockdown arrangements, the Internal Audit Manager drew on substantial internal audit assurance work across the partnership to form her opinion.

The IJB's own assessment of the effectiveness of governance arrangements acknowledges the ongoing work to address significant 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.

### 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.

### Audit Committee arrangements

In June 2021, the Audit Committee considered its annual assurance report. The report notes that the work of the Audit Committee provides assurance to the IJB in relation to a range of governance issues, including risk management and the effectiveness of internal control. The Audit Committee is responsible for directing internal audit resource to key priorities, but also benefits from an audit sharing protocol to ensure that any relevant issues arising in either partner organisation which may impact on the IJB is passed to the Audit Committee for consideration and action as appropriate. No instances of referral were required in 2020/21.

The Audit Committee satisfied itself that it has discharged its responsibilities effectively throughout the year. As a result of changes to voting members, a new Audit Committee Chair convened the meetings throughout 2020/21. We note that the business has continued as normal and that the new Chair has performed his role effectively.

## Integration scheme review

Legislation requires that the Integration Scheme which governs the operations of the IJB is reviewed by the main partners, being Falkirk Council and NHS Forth Valley, at least every five years. The integration scheme for Falkirk IJB was due to be reviewed by November 2020.

A working group has been established to lead the review, chaired by Falkirk Council's Chief Governance Officer. This work is expected to be complete by September 2021.

**Recommendation 2:** The IJB should ensure that the revised Integration Scheme establishes arrangements for key support services.

As we have noted in our 2018/19 and 2019/20 Annual Audit Reports, the IJB has recognised that longer-term budget management arrangements (especially in respect of risk sharing arrangements) need to be embedded and agreed between partners. We note that the Integration Scheme must 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, including communication and consultation support, and procurement expertise. In our view, without formalised arrangements in place, there is a risk that IJB priorities will be impacted by a lack of management capacity.

# 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.

Our analysis of performance reporting highlights the impact of the pandemic on some indicators, but maintained or improved performance overall in areas related to positive experiences of care.

We noted that key steps have been taken to shift the balance of care, and changes are beginning to emerge in activity data, but the corresponding shift in financial resources is less clear.

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## Performance Reporting

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 2019/20 due to a significant number of the staff involved in the preparation of the report being involved in supporting the Covid-19 response. The report was published at the start of November 2020. The 2020/21 report is expected to be published in September 2021.

The IJB receives a regular comprehensive Performance Monitoring Report to support its focus on key performance issues and actions aligned to the Strategic Plan. Dashboards are used to provide an easy to understand summary of performance and the direction of travel, supported by additional explanation within exception reports where performance has fallen. Performance indicators are monitored on an ongoing basis across the health and social care partnership, including the Partnership Management Team.

The IJB's performance reporting highlights the impact of lockdown arrangements on key indicators, including:

- Sickness absence rates significantly increased, reflecting infection rates and self-isolation requirements. In Adult Social Care absence rates exceeded 10% (against a target of 5.5%); and
- The emergency department 4 hour wait target for Falkirk decreased from 92% in March 2020 to 85.8% in March 2021, although attendances fell slightly in year.

However, for a range of other indicators, the IJB was able to make significant improvements despite the challenges of the pandemic. One of the key experience indicators is in the level of delayed discharges. While the number of delayed discharges remained consistent with 2019/20, the bed days occupied fell considerably, from 670 to 209. We understand that this is a result of the redesign work underway for community hospitals, including the closure of a ward at Bo'ness Community Hospital. Other areas of improvement include:

- The number of patients with an Anticipatory Care Plan in place (an improvement of 150% to 32,006); and
- The readmission rate to hospital within 28 days.

## Decision making

We note that the IJB has taken significant steps during 2020/21 to achieve the aims of the Strategic Plan, including shifting the balance of care. We have considered the effectiveness of information presented to the board to support their scrutiny and decision-making responsibilities. We were satisfied that key decisions are well-trailed in discussions and in reports, and demonstrate the focus on continuous improvement and the benefits of integration.

Recommendation 3: Key decisions should be supported by options appraisal or financial analysis of the net impact.

We did, however note that key decision-making papers, such as the decision to close Torwoodhall did not include detailed financial analysis. While we recognise, the potential sensitivity of the decision for residents and their families (and that savings were not the key driver for the closure), inclusion of additional financial analysis would aid transparency and allow partners to make decisions in the context of challenging financial savings targets.

# Best Value: Our assessment

We have drawn upon our wider scope work and fieldwork to support the Falkirk Council Best Value Assurance Report to conclude on the IJB's approach to Best Value.

We note that the Board has 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 continues to be impacted by delays in the integration of key services.

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## Best Value Self Assessment

As auditor to the IJB, we are required to comment on how effectively, in our view, the IJB demonstrates that it meets its Best Value responsibilities. 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.

## Forming our judgement

Planned progress to conduct the self-assessment has been impacted by the pandemic, along with local arrangements to respond to the recent Scottish Government consultation on the Independent Review of Adult Social Care. The IJB participated in fieldwork to support the Best Value Assurance Report for Falkirk Council in summer 2021. In forming this judgement, we have drawn upon the work conducted with the IJB as part of the Best Value fieldwork, along with the work conducted to support our wider scope responsibilities, and specifically:

- Documentation review and fieldwork interviews with the previous Chair and senior officers;
- Our consideration of the IJB's financial planning processes including the most recent Medium Term Financial Plan;
- Governance arrangements, including monitoring reports on the use of resources and scrutiny arrangements;
- Our assessment of performance reporting to the board; and
- The IJB's review of its Strategic Plan and Interim Workforce Plan.

As a result, we drew upon the documentation review and fieldwork interviews to support an indicative assessment against the guidance, at Exhibit 4. Our assessment reflects our wider scope findings that significant progress has been made in 2020/21 despite continuing delays in the integration of key services.

## Exhibit 4: Our assessment of the IJB's status against Best Value Considerations

Best Value Considerations	Our Assessment
<p>1. Who do you consider to be accountable for securing Best Value in the IJB?</p> <p>In forming this judgement, we considered how accountability and governance arrangements are aligned between and across statutory partners, and the quality of information presented to the Board. We noted that:</p> <ul style="list-style-type: none"> <li>Integration Scheme remains under review but at this stage there are no longer term risk sharing arrangements in place for areas of overspend. In addition, while the IJB is participating in the masterplan for the community hospitals, the lack of integration impacts the ability to shift the balance of care and accountability arrangements.</li> <li>We were satisfied that the performance monitoring reports allow the Board to scrutinise performance. The IJB has also been able to secure support from key partners for significant decisions, including the review of Adult Social Care and closure of Torwoodhall.</li> </ul>	 <p>Refer to Recommendations 1 and 2</p>
<p>2. How do you receive assurance that the services supporting the delivery of the strategic plan are securing Best Value?</p> <ul style="list-style-type: none"> <li>Regular performance monitoring reports include trend analysis. Support is received from partners to provide performance information and explanations for poorer performance within exception reports. Further local performance analysis is provided in the statutory Annual Performance Report.</li> <li>Medium Term Financial Plan is in place and is supported by the Health and Social Care Partnership Delivery Plan.</li> <li>Work to analyse and develop a sustainable plan for set aside services was paused as a result of the pandemic. As a result, NHS Forth Valley continues to hold the financial risk for these services and meets the costs of overspends on a non-recurring basis.</li> </ul>	
<p>3. Do you consider there to be sufficient buy-in to the IJB's longer term vision from partner officers and members?</p> <ul style="list-style-type: none"> <li>Key services have not yet been delegated to the IJB. This includes Community Hospitals, which have potential to significantly improve key performance indicators, including delayed discharge. Primary Care Services have not yet transferred.</li> <li>Partners have not yet formally agreed support services to be provided on behalf of the IJB. This includes the provision of corporate service expertise, including financial and procurement support. - Refer also to question 10.</li> </ul>	 <p>Refer to Recommendation 1</p>
<p>4. How is value for money demonstrated in the decisions made by the IJB?</p> <ul style="list-style-type: none"> <li>Use of option appraisal for key decisions presented to the IJB and focus on strategic objectives and prioritised delivery plan. While we note within Recommendation 3 that additional financial information could have been provided in the decision paper regarding the closure of Torwoodhall, we were satisfied that the analysis to underpin the recommendation was appropriate.</li> </ul>	
<p>5. Do you consider there to be a culture of continuous improvement?</p> <ul style="list-style-type: none"> <li>IJB annual performance reports include benchmarking information and focus on local performance data.</li> <li>Evidence within regular Chief Officer Reports, Performance Monitoring Reports and Delivery Plan that there is a focus on prioritised improvement at the earliest opportunity.</li> </ul>	

## Exhibit 4: Our assessment of the IJB's status against Best Value Considerations continued

Best Value Considerations	Our Assessment
<p>6. Have there been any service reviews undertaken since establishment – have improvements been identified? Is there any evidence of improvements in services and/or reductions in pressures as a result of joint working?</p> <ul style="list-style-type: none"> <li>Refer to Financial Sustainability section: Adult Social Care Review, Closure of Torwoodhall, Falkirk Community Hospital Masterplan</li> <li>Bed modelling with partners supported closure of 9 bed unit in Bo'ness hospital</li> </ul>	
<p>7. Have identified improvement actions been prioritised in terms of those likely to have the greatest impact?</p> <ul style="list-style-type: none"> <li>The Health and Social Care Partnership's Delivery Plan prioritises key actions against priority outcomes.</li> <li>Both the Strategic Plan and the Medium Term Financial Plan recognise the risks of failing to adopt a whole systems approach, and the need to mitigate rising demand for social care, in particular home care. Improvement actions to date have therefore focused on where the IJB has operational responsibility for the whole service.</li> </ul>	 <p>Refer to Recommendation 1</p>
<p>8. What steps are taken to ensure that quality of care and service provided is not compromised as a result of costs saving measures?</p> <ul style="list-style-type: none"> <li>The ability to achieve cost savings was curtailed in 2020/21 as a result of the response to the pandemic. However, we were satisfied key decisions presented to the IJB and partners were supported by a programme of consultation including tailored support for residents impacted by decisions.</li> </ul>	
<p>9. Is performance information reported to the board of sufficient detail to enable value for money to be assessed?</p> <ul style="list-style-type: none"> <li>Refer to Value for Money Section: The IJB receives a regular comprehensive Performance Monitoring Report to support its focus on key performance issues and actions aligned to the Strategic Plan. Dashboards are used to provide an easy to understand summary of performance and the direction of travel, supported by additional explanation within exception reports where performance has fallen.</li> <li>Performance indicators are monitored on an ongoing basis across the health and social care partnership, including the Partnership Management Team.</li> </ul>	
<p>10. How does the IJB ensure that management of resources (finances, workforce etc.) is effective and sustainable?</p> <ul style="list-style-type: none"> <li>The IJB will update its Medium Term Financial Plan during 2021/22. An Interim Workforce Plan has been developed which addresses historic imbalances in place but notes areas where posts are difficult to recruit.</li> <li>As we have noted in our 2018/19 and 2019/20 Annual Audit Reports, the IJB has recognised that longer-term budget management arrangements (especially in respect of risk sharing arrangements) need to be embedded and agreed between partners. We also note that the Integration Scheme must reflect the support services that the IJB will require from its partners. In our view, without formalised arrangements in place, there is a risk that IJB priorities will be impacted by a lack of management capacity.</li> </ul>	 <p>Refer to Recommendation 2</p>

Source: Audit Scotland Guidance: Auditing Best Value – Integration Joint Boards, March 2018



# Appendices

A – Code of Audit Practice: responsibilities

B – Independence and audit quality

C – Required communications with the audit committee

D – Action plan

E – Follow up of prior year recommendations

F – Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

<p>Corporate Governance</p>	<p>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.</p>
<p>Financial Statements and related reports</p>	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.</li> <li>• maintaining proper accounting records.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>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.</p>
<p>Standards of conduct / prevention and detection of fraud and error</p>	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• such financial monitoring and reporting arrangements as may be specified</li> <li>• compliance with any statutory financial requirements and achievement of financial targets</li> <li>• balances and reserves, including strategies about levels and their future use</li> <li>• how they plan to deal with uncertainty in the medium and longer term</li> <li>• the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
<p>Best Value</p>	<p>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.</p>

# 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
Component of fee:		
Total agreed auditor remuneration *	£18,850	£18,300
Agreed additional fees	-	£1,800
Audit Scotland fixed charges:		
Pooled costs	£1,790	£1,790
Performance audit and best value	£5,650	£5,360
Audit support costs	£1,040	£1,110
Total fee	£27,330	£28,360

\* 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 (AOB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AOB meets monthly and also holds an annual strategy session. The AOB reports to the EY UK Board. The AOB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the IJB since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

# Appendix C: Required communications

Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> <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>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <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>Misstatements</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>Fraud</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>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <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>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <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>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report – no significant deficiencies reported</p>
<p>Subsequent events</p> <p>Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> <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>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>

# Appendix D: Action Plan

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

## Classification of recommendations

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

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

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

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The IJB has been in place for 5 years, but operational responsibility for key services has not yet transferred. This limits the benefits that can be achieved through transformation and may prevent achievement of the aims in the Strategic Plan.	The IJB and its partners must ensure that planning and operational management responsibility is transferred for remaining services, including Primary Care, to allow the benefits of integration to be achieved.  Grade 1	Accepted.  Discussions are ongoing in conjunction with NHS Forth Valley and colleagues in Clackmannanshire & Stirling IJB regarding the transfer of planning and operational management responsibility for all outstanding in scope health services.  Responsible officer: IJB Chief Officer & NHS Forth Valley Chief Executive.  Implementation date: 31 Mar 2022
2	As an Integration Authority, the IJB does not directly employ its own staff. The ability to respond to key legislative and governance requirements therefore relies on the resource capacity provided by partners in NHS Forth Valley and Falkirk Council.	The IJB should ensure that the revised Integration Scheme establishes arrangements for key support services.  Grade 2	Accepted.  Provision of adequate and equitable corporate support functions is essential if the IJB is to operate effectively and deliver transformational change. The review of the Integration Scheme will consider the need for a more formal corporate support agreement with partners.  Responsible officer: IJB Chief Officer, Falkirk Council Chief Executive & NHS Forth Valley Chief Executive.  Implementation date: 30 Sept 2021
3	The IJB will continue to face significant decisions to deliver the Strategic Plan and to respond to the significant budget gap across services. In our view, the papers presented to the Board could be enhanced by additional financial analysis. This may require additional financial capacity to be provided by partners.	Key decisions should be supported by options appraisal or financial analysis of the net impact.  Grade 2	Accepted.  It is important to strike an appropriate balance in the level of detail provided in publicly available reports compared to internal management information and analyses used to inform decision making.  Responsible officer: Chief Finance Officer  Implementation date: 30 Sept 2021

# Appendix E: Prior Year Action Plan

This action plan summarises specific recommendations included within the 2019/20 Falkirk 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			
No	Findings and recommendation	Management response	Our assessment
1	<p>The IJB approved the 2020/21 budget at its meeting in December 2019, along with its delivery plan for 2019-22 and its medium term financial plan through to 2025.</p> <p>The IJB medium term financial plan reported expenditure, funding and shortfall projections over the 5-year period. The projected shortfall decreases from £7 million in 2020-21 to £5m in 2024-25.</p> <p>The MTFP includes a savings summary, however, this only covers the first year of the plan, with confirmed savings of £2.2 million from Social Care (for a total gap of £3.091 million) and no confirmation of savings identified from Health (funding gap of £3.933 million).</p> <p>It was noted that NHS Forth Valley colleagues were working on plans to address the financial gaps in 2020/21 and beyond, and that an update would be provided to the IJB. 2020/21 savings are being monitored within quarterly finance reports to the board.</p> <p>The IJB should ensure that the MTFP saving summary is completed for the full 5-year period of the financial plan, to allow for potential funding gaps and savings targets to be identified by the IJB and partners as soon as possible.</p> <p style="text-align: right;">Grade 1</p>	<p>Accepted.</p> <p>The need to identify future savings initiatives to support longer term financial sustainability is recognised. Progress in this area is dependent on completion of the transfer of planning and operational management responsibility for all outstanding in scope health services.</p> <p>Responsible officer: Falkirk IJB Chief Officer, Falkirk IJB Chief Finance Officer, Falkirk Council Chief Executive and NHS Forth Valley Chief Executive.</p> <p>Implementation date: March 2021</p>	<p>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.</p> <p>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.</p> <p>Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.</p> <p>We note that key improvements were made to shift the balance of care in service areas during 2020-21. However it is recognised that the overall pace of change remains slow and further work is necessary to achieve full integration.</p> <p>Audit Assessment: <b>In progress</b></p>

No.	Findings and / or risk	Management response	Our assessment
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.</p> <p>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 and achievability of savings moving forward.</p> <p style="text-align: right;">Grade 1</p>	<p>Accepted.</p> <p>The Medium Term Financial Plan is a live, dynamic document which is routinely updated and reviewed. As the longer term operational service impact of the pandemic becomes clear, this will be incorporated within our strategic financial planning assumptions. In the meantime, we continue to separately track and monitor the financial impact of Covid in line with Scottish Government guidance.</p> <p>Responsible officer: Chief Finance Officer</p> <p>Implementation date: 31 March 2021</p>	<p>The IJB's most recent Medium Term Financial Plan was approved in December 2019. It will be revised during 2021-22 to reflect new financial planning assumptions, the refresh of the strategic plan and the recurring cost impact of Covid-19.</p> <p>Audit Assessment: <b>In progress</b></p>
3	<p>The Ministerial Steering Group (MSG) developed a self-evaluation template based on the six key features of integration. Falkirk IJB completed a self-assessment during a board development session in May 2019, with over 80 improvement actions being identified to allow for a fully integrated IJB.</p> <p>The IJB had originally planned for a follow up report to be presented to the Board in early 2020, however, the emergence of the global pandemic had delayed further progress of the integration improvement plan. The MSG draft improvement plan should be finalised, and follow up reports presented to the Board on a regular basis to allow for appropriate governance overview regarding integration.</p> <p style="text-align: right;">Grade 1</p>	<p>Accepted.</p> <p>Good progress has been made in a number of key areas during 2019/20 however, it is recognised that the overall pace of change remains slow and further work to achieve full integration is necessary.</p> <p>Responsible officer: Falkirk IJB Chief Officer, Falkirk Council Chief Executive and NHS Forth Valley Chief Executive</p> <p>Implementation date: June 2021</p>	<p>As above, we note the key steps taken to integrate community hospitals but the overall pace of change remains slow and further work is necessary to achieve full integration.</p> <p>Audit Assessment: <b>In progress</b></p>

No.	Findings and / or risk	Management response	Our assessment
4	<p>Legislation requires that the Integration Scheme which governs the operations of the IJB is reviewed by the main partners, being Falkirk Council and NHS Forth Valley, at least every five years. The integration scheme for Falkirk IJB is due to be reviewed by November 2020.</p> <p>As noted in 2018/19, the IJB has recognised that longer-term budget management arrangements (especially in respect of risk sharing arrangements) need to be embedded and agreed between partners.</p> <p>Currently, risk sharing is agreed by partners on an annual basis. The IJB should ensure that risk sharing is embedded into the integration scheme which is due to be formally reviewed by November 2020. This will allow for longer-term financial management.</p> <p style="text-align: right;">Grade 1</p>	<p>Accepted.</p> <p>A longer term risk sharing agreement to support strategic financial management for all Partners is preferable to the current annual arrangement. This will be considered as part of the formal review of the Integration Scheme. It is unlikely that the Integration Scheme will be reviewed by the original deadline of November 2020 due to the ongoing impact of Covid.</p> <p>Responsible officer: Falkirk Council Chief Executive and NHS Forth Valley Chief Executive.</p> <p>Implementation date: March 2021.</p>	<p>Progress against this recommendation has been delayed as a result of Covid-19. The Integration Scheme was due to be reviewed by November 2020 in line with legislative requirements. A working group has now been established to take his forward and is expected to be complete by September 2021.</p> <p>Audit Assessment: <b>In progress</b></p>

# Appendix F: Timing and deliverables of the audit

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