

# **Agenda Item 7**

## **External Audit Plan 2020-21**

# Falkirk Integration Joint Board

**Annual Audit Plan  
Year ending 31 March 2021**

**5 March 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 appointed us as external auditor of Falkirk Integration Joint Board (the IJB) for financial years 2016/17 to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

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

## Complaints

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

# 1. Executive summary

## Our key contacts:

Stephen Reid  
Partner  
[sreid2@uk.ey.com](mailto:sreid2@uk.ey.com)

Grace Scanlin  
Senior Manager  
[grace.scanlin@uk.ey.com](mailto:grace.scanlin@uk.ey.com)

## Our independence:

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

## Purpose of this report

The Accounts Commission appointed EY as the external auditor of Falkirk Integration Joint Board ("the IJB") for the five year period to 2020/21. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22.

This Annual Audit Plan, prepared for the benefit of IJB management and the Audit Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2021. This plan sets out the work we will perform to allow us to provide our independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value. After consideration by the IJB, the plan is provided to Audit Scotland and published on their website.

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

## Financial statement audit

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the IJB as at 31 March 2021 and of its income and expenditure for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2020/21 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

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

## Wider scope audit responsibilities

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

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

# Audit dashboard

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

## Key financial statement risks

There are no new financial statements risks identified at the IJB for 2020/21:

<b>Significant Risk:</b> Risk of fraud in expenditure recognition, including through management override of control	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. For the IJB we consider this risk to manifest itself as an expenditure recognition risk.</p>
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Materiality levels will be confirmed on completion of our detailed planning audit work. Indicative levels, based on prior year figures, have been set as follows:

Planning Materiality	Tolerable Error	Reportable differences
<b>£2.4 million</b>	<b>£1.8 million</b>	<b>£120,000</b>
Materiality initially has been set at approximately 1% of expenditure for the year.	Materiality at an individual account level, representing 75% of our planning materiality	Level of error that we will report to committee

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

## Wider scope risks

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

<b>Financial Sustainability:</b> Continuing financial pressures	<p>The IJB’s projected budget shortfall for the five year period of its medium term financial plan was £7 million in 2020-21, falling to £4.9 million in 2024-25. The cumulative projected shortfall is £25.9 million over the 5 years of the plan.</p> <p>The impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners. While service planning for the IJB social care functions is more advanced, significant work remains to be done to ensure the IJB meets its financial plan across the period.</p>
<b>Governance &amp; Transparency:</b> Improvements in the pace of integration	<p>The IJB’s self-evaluation of progress against key features of integration, completed in 2018/19, highlighted that a significant level of work was required to provide the level of collaborative leadership necessary to increase the pace of change. Key improvement actions have been identified in a draft improvement plan, however, progress was put on hold due to the global pandemic.</p>
<b>Value for Money:</b> Demonstrating the achievement of Best Value	<p>We will consider and report on how the IJB demonstrates that it is achieving value for money. This will include our assessment of the governance arrangements, along with the IJB’s annual performance reporting.</p>

## 2. Sector developments

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

### Scrutiny

The 2019/20 Falkirk Scrutiny Plan highlighted no significant risks in relation to the IJB. This is the most recent report published at the time of writing the 2020/21 plan.

A National Scrutiny Plan (NSP) was most recently published by the Accounts Commission (on behalf of the Strategic Scrutiny Group) in September 2019. The NSP summarises all planned and announced strategic scrutiny activity from September 2019 in each of Scotland's 32 councils. The plan was based on a shared risk assessment undertaken by a local area network (LAN), comprising representatives of all the scrutiny bodies who engage with the various councils.

While there is no formal Shared Risk Assessment (SRA) process for integration authorities, the LAN for the associated local authority considers health and social care outcomes, governance and partnership working as part of their assessment of the local authority. We are also the appointed auditor of Falkirk Council and act as the LAN lead for the Falkirk Council SRA. The 2020/21 LAN process is underway and we will report any emerging risks to the IJB as appropriate.

### Political environment

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

- ▶ **Covid-19 Pandemic:** the impact of the pandemic has dominated the political environment for the past 11 months and will, in all likelihood, continue to do so moving forward.
- ▶ **EU withdrawal:** the UK formally exited the EU on 31 January 2020, and following a transition period until 31 December 2020, its relationship with the EU is now fully under new arrangements.
- ▶ **Scotland Independence Referendum:** there is continued uncertainty regarding whether a Scottish independence referendum will be held.
- ▶ **Scottish Parliament Elections:** Scottish elections are due to be held on 6 May 2021.

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

## Accounts Commission Overview

The Accounts Commission (“the Commission”) published their Local Government in Scotland: Financial overview 2019/20 report in January 2021. Part 4 of this report provides an overview of the performance of integration joint boards in 2019/20.

Key messages highlighted by this report included:

- ▶ The majority of IJBs (22 out of 30) struggled to achieve break-even in 2019/20 or recorded deficits.
- ▶ Total mobilisation costs for Health and Social Care Partnerships related to Covid-19 for 2020/21 were estimated as £422 million. The report noted that it is not yet clear whether the Scottish Government will fund all Covid-19 related costs.
- ▶ Revisions will be required to medium-term financial planning and savings plans to reflect the impact of Covid-19 in the immediate future and going forward.
- ▶ There were changes in the role of Chief Officer at 12 IJBs during 2019/20.

Similarly, the Auditor General for Scotland produces an annual overview of the NHS in Scotland with the most recent report issued in October 2019. The report notes that the healthcare system faces increasing pressure from rising demand and costs, and it has difficulty meeting key waiting times standards. NHS boards now have a requirement to develop three-year financial and performance plans to enable them to more effectively plan how services will be delivered in the longer term. However, achieving financial sustainability still remains a major challenge for NHS boards.

The report makes a number of recommendations for the Scottish Government, NHS Boards and also integration authorities. The detail of these, within the context of the report, can be found at: [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr\\_191024\\_nhs\\_overview.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_191024_nhs_overview.pdf) The se findings will now have to be considered in the context of a post Covid-19 environment.

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

### **Budget setting process 2021/22**

The Scottish Budget for 2021/22 was published on 28 January 2021. This announcement focused on key priorities, including the response to the global pandemic.

The IJBs are dependent on agreeing budgets with their partners before the start of the year. Due to delays in the Scottish Budget announcement, partner organisations may be delayed in agreeing their budgets. The IJB continues to monitor Covid-19 related costs as part of its budgeting and financial monitoring processes in 2021/22. We will consider the IJB's approach to budget setting as part of our wider scope work on Financial Management.

### **Impact reporting**

As part of the 2020/21 wider scope audit work, we will continue to review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations as appropriate.

We will continue to monitor the Audit Scotland performance audit programme as it develops following the global pandemic, and will share any requirements with management as necessary.

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

The Review of Adult Social Care in Scotland was announced by the First Minister as part of the Programme for Government in September 2020. The review has been published and makes recommendations for improvements in outcomes for people using adult social care services, their carers and families and improvements in the experience of people working in adult social care. The report has been submitted to the Scottish Government for consideration. If recommendations are accepted by the Scottish Parliament, there may be significant implications for the IJB, including the creation of a national adult care service and changes to the management of assets and resources.

As part of the 2020/21 audit, we will continue to liaise with management to understand any potential impact that this review may have on the IJB in the short and medium term.



# 3. Financial Statement Risks

## Introduction

The IJB's annual financial statements enables the IJB to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom.

## Audit Opinion

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

- ▶ whether they give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the IJB as at 31 March 2021 and of its income and expenditure for the year then ended;
- ▶ have been properly prepared in accordance with IFRSs, as interpreted and adapted by the 2020/21 Code; and
- ▶ whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

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

## Other Statutory Information

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

As in previous years, the management commentary and narrative reporting continues to be an area of increased scrutiny as a result of rising stakeholder expectations, including continuing interest by the Financial Reporting Council. We will continue to work with the Chief Finance Officer to support the ongoing enhancement in financial statements disclosures, including narrative commentary, in advance of and subsequent to the publication of the 2020/21 financial statements.

## **Audit Approach**

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

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the IJB, including assurances from the auditors of the constituent councils and health boards in respect of the controls in place and the amounts included in the IJB financial statements.
- ▶ Substantive tests of detail of transactions and amounts. For 2020/21 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements.

## Materiality

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

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

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

### Materiality Level

Planning Materiality £2.4 million	<b>Planning materiality (PM)</b> - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For initial planning purposes, materiality for 2020/21 has been set at £2.4 million. This represents approximately 1% of the IJB's projected expenditure for the year.
Tolerable Error £1.8 million	<b>Tolerable error (TE)</b> - materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £1.8 million which represents 75% of planning materiality.
Summary of Audit Differences £120,000	<b>Summary of Audit Differences (SAD) Nominal amount</b> - the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have set it at £120,000 which represents 5% of planning materiality.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

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

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

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

### **Covid-19 Pandemic - Impact on Financial Statements**

We outlined in our reporting in 2019/20 how the impact of Covid-19 would significantly alter the required disclosures in the financial statements.

- ▶ In line with 2019/20, the governance statement should capture how the control environment has changed during the period of the pandemic, and steps being taken by the IJB to maintain a robust control environment during the disruption. This includes consideration of how key governance functions are continuing to operate, such as key committee meetings and the delivery of internal audit's programme of work.
- ▶ The IJB's management commentary should clearly summarise the performance of the IJB in the year, including the impact of Covid-19 on both its financial performance and future planning, and its impact of key statutory performance indicators.
- ▶ Significant events after the balance sheet date require to be disclosed within the financial statements, either through the post balance sheet events note or in specific accounting notes or the management commentary and governance statement, as appropriate. The detail required in the disclosures will reflect the specific circumstances of the IJB.

### **Accounting policies**

While the impact of Covid-19 has been occurring for almost a year now, 2020/21 is the first financial year where the full impact on day to day accounting transactions will be seen in the financial statements. Covid-19 will continue to have a potentially materially impact on the financial statements, including how the IJB accounts for significant income and expenditure. Any specific government support may qualify as a new transaction stream and require development of new accounting policies.

## **Impact on Audit Process**

Following the impact of Covid-19 on the financial statement preparation and audit process in 2020, Audit Scotland has set its reporting deadline for local government bodies at 31 October 2021, a month later than the traditional timeframe but a month earlier than the 2020 revised deadlines. These deadlines will continue to be reviewed through the year as circumstances change, however the FRC and Audit Scotland have made clear that any deadlines are secondary to the primacy of audit quality and ensuring completeness of work regardless of the environment in which audit takes place.

We have outlined the planned timing for the key deliverables of the audit process in Appendix D. These reflect initial discussions with management and the agreed intention to maintain planned reporting dates in line with previous timeframes. We will continue to work closely with management to review timeframes and logistics for the completion of the audit in 2020/21.

We will aim to take a pragmatic and flexible approach in the current environment, while also recognising that strong financial management and good governance are more important than ever at this difficult time.

## **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. In 2019/20, the CIPFA bulletin 05 (closure of the 2019/20 financial statements) stated 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 had not changed.

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. 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 place increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the IJB and its financial sustainability.

As part of our 2019/20 audit process we asked management to prepare a going concern assessment, outlining the main areas of consideration in arriving at its conclusion that the IJB was a going concern with no material uncertainties around this conclusion. We also challenged management on the adequacy of some of the disclosures and the expected medium term impact of Covid-19; a number of improved disclosures were made to the financial statements.

Our audit procedures around going concern for this year remain under planning, to ensure we reflect the requirements of the revised ISA's and also the revised Practice Note 10. We will agree the required arrangements with management in advance of the yearend audit and report our conclusions as part of our yearend reporting.

# Significant Risks

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

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

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

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

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

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

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

### **Work we will perform:**

- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Identifying any further risks of fraud then determining an appropriate audit strategy to address those identified risks of fraud.
- ▶ Challenging management around how the IJB gains assurance over the expenditure incurred by its partner bodies, so that it can account for the recognition of expenditure to those bodies.
- ▶ Substantively test income and expenditure transactions as appropriate and material, in particular in respect of any reserve funding held by the IJB.
- ▶ Consideration of the impact of Covid-19 on revenue, in particular new revenue streams and accrued income due to receipt of grant income, and its accounting arrangements against existing policies and anticipated updated LASAAC guidance.
- ▶ Obtaining supporting documentation through independent confirmations of the expenditure incurred by the IJB's partners and their auditors, in line with the protocols set out by Audit Scotland for 2020/21 audits.
- ▶ Performing mandatory procedures including testing of all material journal entries and other adjustments in the preparation of the financial statements.

# 4. Wider scope audit risks

The Code sets out the four dimension that comprise the wider scope audit for public sector in Scotland. These are: financial sustainability, financial management, governance and transparency, and value for money. The Accounts Commission has also set five strategic Audit Priorities in its 2019-24 strategy. In 2020/21 auditors are not specifically asked to consider and report on these through our audit work, however we will continue to consider them as part of our wider scope work through the year.

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

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

We will include commentary within our Annual Audit Report on how the IJB demonstrates that it is meeting its Best Value duties, in line with Audit Scotland planning guidance. See page 17 for details.

Audit dimension	Significant risk	Work we will perform in 2020/21
<b>Financial sustainability:</b> Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.	Continuing financial pressures	<p>In our 2019/20 Annual Audit Report, we noted that the IJB considered 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. The 2020/21 budget was given formal approval in March 2020. The plan supports the delivery of the IJB's Strategic Plan, and provides a summary of the known factors that will impact the financial position going forward. The IJB's projected budget shortfall for the five year period of the plan was £7 million in 2020-21, falling to £4.9 million in 2024-25. The cumulative projected shortfall is £25.9 million over the 5 years of the plan.</p> <p>In addition to this, the impact of Covid-19 has added further financial pressure and uncertainty to the IJB and its partners. As reported to the Board in November 2020, a total of £5.8 million Covid-19 related costs were incurred by the IJB for the first half of 2020/21, with Scottish Government funding amounting to £3.7 million already received by the IJB. It is expected that all Covid-19 related costs will be fully funded by the Scottish Government. Total Covid-19 related costs for the 2020/21 were estimated at £10.7 million.</p> <p>We will continue to consider the pace and extent of progress by the IJB to address overall financial pressures in a sustainable way. This will contribute to our overall assessment of Best Value.</p>

Audit dimension	Significant risk	Work we will perform in 2020/21
<p><b>Financial management:</b> considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>No specific additional audit focus</p>	<p>In our 2019/20 Annual Audit Report we concluded that financial pressures on the IJB's budget were consistently reported by management through the financial year, and overall we were satisfied that the core financial management arrangements established by the IJB are adequate for the current management of its financial activities.</p> <p>In 2019/20, the IJB relied on non-recurring funding to deliver a £0.352 million deficit, including £1.706 million in additional contributions from NHS Forth Valley to meet overspends on health services. The IJB updated the reserves policy, and as a result, increased the maximum level of contingency / general reserves to allow for offsetting the impact of unforeseen events or emergency situations.</p> <p>We will continue to review the outturn position against the forecasts to inform our view on the robustness of financial management and monitoring information. There will be continued focus regarding the impact of Covid-19 on the IJB's financial management arrangements, including remote working and working from home.</p> <p>We will also consider the IJB's assessment of its compliance with the CIPFA Financial Management Code, which is effective for local government bodies from 2020/21.</p>



Audit dimension	Significant risk	Work we will perform in 2020/21
<p><b>Governance and transparency:</b></p> <p>is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Improvements in the pace of integration</p>	<p>In our 2019/20 Annual Audit Report we concluded that while progress has been made on implementing integrated structures, a number of key governance processes that are required to support integration are still outstanding.</p> <p>The IJB's self-evaluation of progress against key features of integration, completed in 2018/19, highlighted that a significant level of work is required to provide the level of collaborative leadership necessary to increase the pace of change. Key improvement actions have been identified in a draft improvement plan but progress has been impacted by the global pandemic.</p> <p>Legislation requires that the Integration Scheme which governs the operations of the IJB is reviewed by the main partners at least every five years. The integration scheme for Falkirk IJB was due to be reviewed by November 2020. We will consider the arrangements that the IJB has put in place to complete this review.</p> <p>We note that the IJB's Chief Internal Auditor left Falkirk Council in January 2021. We will monitor internal audit arrangements, including the completion of work to support the annual audit opinion as part of our usual work on governance. Our audit strategy for 2020/21 will also consider:</p> <ul style="list-style-type: none"> <li>▶ Can the IJB demonstrate that the governance arrangements are appropriate and continuing to operate effectively, particularly in light of the impact of the Covid-19 pandemic on working arrangements?</li> <li>▶ Is there effective scrutiny, challenge and transparency on decision making and financial and performance reports?</li> <li>▶ Is the Annual Governance Statement complete and does it reflect key findings from audit, scrutiny and inspection?</li> <li>▶ Can the IJB demonstrate adequate progress against audit recommendations?</li> </ul>

Audit dimension	Significant risk	Work we will perform in 2020/21
<p><b>Value for money:</b> considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.</p>	<p>Demonstrating the achievement of value for money</p>	<p>In 2019/20, we concluded that the IJB had arrangements to consider its performance against a range of local and national indicators throughout the year.</p> <p>The IJB exercised powers granted by the Coronavirus (Scotland) Act 2020 regarding the delayed publishing of the Annual Performance Report for 2019/20. The Annual Performance Report highlighted mixed performance, with improvement in areas related to positive experiences of care and healthy living and premature mortality rate, but lower performance for key indicators including readmission to hospital within 28 days and fall rate per ageing population.</p> <p>We will consider how the IJB is addressing value for money in relation to the impact of Covid-19, specifically in relation to the potential impact on performance reporting measures.</p> <p>We will also review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations, such as reports from the Care Inspectorate.</p>

### Best Value

In 2019/20, we concluded the Board has a number of key characteristics of Best Value in place. However we noted that, in our view, the IJB does not yet have a framework in place to allow it to demonstrate to the Board that Best Value is being achieved.

A planned self assessment against the Audit Scotland's Best Value guidance for IJBs, *Auditing Best Value - Integration Joint Boards*, was delayed during 2019/20 as a result of the global pandemic. We will support the IJB's self-assessment and our work in 2020/21 will include consideration of:

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

This will be a key step to allow the IJB to demonstrate that it meets Best Value responsibilities.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

D - Timing and deliverables of the audit

E - Audit fees

F - Additional audit information

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

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

### Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

### Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.

# Appendix B: Independence Report

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

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

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

# Appendix C: Required Communications

Required communication	Our reporting to you
<b>Terms of engagement / Our responsibilities</b> Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>Significant difficulties, if any, encountered during the audit</li> <li>Significant matters, if any, arising from the audit that were discussed with management</li> <li>Written representations that we are seeking</li> <li>Expected modifications to the audit report</li> <li>Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Annual Audit Plan Annual Audit Report
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>Whether the events or conditions constitute a material uncertainty</li> <li>Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>The adequacy of related disclosures in the financial statements</li> </ul>	Annual Audit Report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>The effect of uncorrected misstatements related to prior periods</li> <li>A request that any uncorrected misstatement be corrected</li> <li>Corrected misstatements that are significant</li> <li>Material misstatements corrected by management</li> </ul>	Annual Audit Report
<b>Fraud</b> <ul style="list-style-type: none"> <li>Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>A discussion of any other matters related to fraud</li> </ul>	Annual Audit Report
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	Annual Audit Report or as occurring if material.

Required communication	Our reporting to you
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Annual Audit Report or as occurring if material.
<b>Independence</b> Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Annual Audit Plan Annual Audit Report
<b>Internal controls</b> Significant deficiencies in internal controls identified during the audit	Annual Audit Report
<b>Representations</b> We will request written representations from management and/or those charged with governance.	Annual Audit Report
<b>Subsequent events</b> Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.	Annual Audit Report
<b>Material inconsistencies and misstatements</b> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Annual Audit Report
<b>Fee Reporting</b> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Annual Audit Plan Annual Audit Report

# Appendix D: Timing and deliverables of the audit

We deliver our audit in accordance with the timeline set by the IJB, in accordance with the most recent planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle. The timetable will be subject to ongoing consideration of the impact of the Covid-19 pandemic.

	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	<ul style="list-style-type: none"> <li>Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information</li> </ul>	We will continue to monitor Audit Scotland performance audit programme following Covid-19	Throughout 2021
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	<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
SEP			



# Appendix E: Audit fees

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

Audit Fees		2020/21	2019/20
	Component of fee:		
	Auditor remuneration - expected fee	£18,850	£18,300
	Auditor remuneration - fee variation	TBD	£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
	<b>Total fee</b>	<b>£27,330</b>	<b>£28,360</b>

The expected fee for each body, which for 2020/21 has been set centrally by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit. Should any of these circumstances not be in place throughout the audit, it is expected that additional costs will be incurred through the course of the audit which will be subject to recovery in line with the agreed process and rates set out by Audit Scotland. Under this process, fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, or more with the approval of Audit Scotland.

In 2019/20 we agreed a fee variation with management in relation to additional work required as a result of the impact of Covid-19 on various aspects of the audit. We will continue to consider the impact of Covid-19 on the audit going forward. Should additional audit requirements arise we will raise these with management through the course of the audit and agree variations as appropriate, and report the final position to the Audit Committee with our annual audit report.

# Appendix F: Additional audit information

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

## Our responsibilities required by auditing standards

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

## Purpose and evaluation of materiality

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

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

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

## Audit Quality Framework / Annual Audit Quality Report

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

We support reporting on audit quality by providing additional information including the results of internal quality reviews undertaken on our public sector audits. The most recent audit quality report can be found at: [Quality of public audit in Scotland annual report 2019/20 | Audit Scotland \(audit-scotland.gov.uk\)](#)

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details can be found in our annual Transparency Report:

[EY UK Transparency Report 2020 | EY UK](#)

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