



# Falkirk Integration Joint Board

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2019**

**27 September 2019**

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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 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, 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 2018/19 audit

<p><b>Financial statements: Audit Opinion</b></p>	<p>We have concluded our audit of the IJB's financial statements for the year ended 31 March 2019.</p> <p>No audit adjustments were required to be made and there are no unadjusted differences that we are required to communicate.</p> <p>We concluded that the other information subject to audit, including parts of the Remuneration Report and the Annual Governance Statement were appropriate.</p>	<p style="writing-mode: vertical-rl; text-orientation: mixed;">GREEN</p>
<p><b>Presentation and disclosures</b></p>	<p>The draft financial statements and supporting working papers were of a good quality. We worked with the Chief Finance Officer to draw upon good practice guidance issued by Audit Scotland to make improvements to the Management Commentary and other minor disclosures.</p> <p>We were satisfied that the Annual Governance Statement materially reflects the requirements of the <i>Delivering Good Governance Framework</i>.</p>	<p style="writing-mode: vertical-rl; text-orientation: mixed;">GREEN</p>
<p><b>Wider Scope: Financial Management</b></p>	<p>The IJB relied on non-recurring funding to deliver a £19,000 surplus in 2018/19, including transfers from reserves and £2.7 million in additional contributions from NHS Forth Valley to meet overspends on health services.</p> <p>Unexpected reserve transfers underlines that there has been insufficient transparency about spending and the impact of priority areas of investment from partners during the year.</p>	<p style="writing-mode: vertical-rl; text-orientation: mixed;">AMBER</p>
<p><b>Financial Sustainability</b></p>	<p>The IJB does not yet have key strategies to support the delivery of the Strategic Plan, including a Medium Term Financial Plan and Integrated Workforce Plan.</p> <p>Only 61% (£2.6 million) of planned savings were delivered in 2018/19. A funding gap of £5.2 million has been identified for 2019/20 but it is unclear how NHS Forth Valley will deliver their share of savings, totalling £3.47 million (68.7%).</p>	<p style="writing-mode: vertical-rl; text-orientation: mixed;">RED</p>
<p><b>Governance and Transparency</b></p>	<p>While progress has been made on implementing integrated structures, the pace of change remains slow and, as reported by us in 2017/18, a number of key governance processes that are required to support integration have not been completed.</p> <p>The IJB's self-evaluation of progress against key features of integration highlights that a significant level of work is required to provide the level of collaborative leadership necessary to increase the pace of change.</p>	<p style="writing-mode: vertical-rl; text-orientation: mixed;">RED</p>
<p><b>Value for money</b></p>	<p>The IJB receives regular performance reports that provide assessments of areas for improvement. The Annual Performance Report was published by 31 July 2019, in line with legislation, but was subject to substantial data gaps which mean that it is difficult to assess whether the IJB is delivering Best Value.</p> <p>During the year, the IJB and its partners responded to significant performance challenges. While the IJB can demonstrate that specific interventions in adult social care have been effective in delivering improvements in a short period of time, performance overall remains poor.</p>	<p style="writing-mode: vertical-rl; text-orientation: mixed;">RED</p>



# Introduction

## **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”) for the five year period 2016/17 to 2020/21. 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 our 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 will be 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 your external auditor.

## Scope and Responsibilities

The Code of Audit Practice (Code) sets out the responsibilities of both the IJB and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Audit Committee on 28 March 2019.

Our Annual Audit Plan set out an overview of our audit scope and approach for the audit of the 2018/19 financial statements. We can confirm that we carried out our audit in accordance with the plan, and no changes were made to the level of materiality that we applied. In accordance with the plan, we have set our reporting threshold to communicate the details of errors identified at £100,000.

Overall Materiality

**£2.1 million**

2% of the IJB's net expenditure

Tolerable Error

**£1.5 million**

Materiality at an individual account level

Nominal amount

**£100,000**

Level that we will report to committee

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

### Financial statement 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 2019 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 2018/19 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. Our findings are summarised in Section 2 of this report.

### Wider Scope audit

Our responsibilities extend beyond the audit of the financial statements. 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 findings for each dimension are summarised in Section 3 of this report.





# Financial Statements audit

## **Introduction**

The Annual Accounts 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 Annual Audit Plan highlighted one area that we identified as a fraud risk relating to the risk of fraud in revenue and expenditure recognition, including through management override of controls.

## **Compliance with Regulations**

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the IJB to prepare financial statements, ensure their availability for public inspection and consideration by the Board or a committee with an audit or governance remit.

The IJB's unaudited financial statements were considered by the audit committee on 27 June 2019, prior to their submission to us for audit, and in advance of the deadline of 31 August. The inspection notice was published on 17 June 2019, in accordance with Regulations.

## **Preparation of the financial statements**

In April 2019, Audit Scotland published a good practice note on improving the quality of integration joint board financial statements. The note included an improvement checklist to assist IJB's in improving the quality and effectiveness of their annual accounts. During the audit process, we drew on the good practice note to highlight areas for improvement, including:

- ▶ Improved explanation on the IJB's overall performance, including greater analysis of performance indicator trends.
- ▶ Clarity about the risks facing the IJB and the potential impact.

## **Audit outcomes**

There were no adjusted or unadjusted audit differences arising from the audit. Our overall audit opinion is summarised on the following page.

# 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 2019 and its expenditure and income for the year then ended</li> <li>▶ Financial statements in accordance with the relevant financial reporting framework</li> </ul>	<p>We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks 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 2018/19 financial statements for 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 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>We have no matters to report.</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>We conduct a range of substantive procedures on the financial statements. Our conclusion draws upon:</p> <ul style="list-style-type: none"> <li>▶ Review of committee and board minutes and papers, regular discussions with management, our understanding of the IJB and the wider sector.</li> <li>▶ Audit Scotland's <i>Improving the Quality of Local Government Annual Accounts: Integration Joint Boards Good Practice Note</i>.</li> </ul>	<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>	<p>Our procedures include:</p> <ul style="list-style-type: none"> <li>▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records, including to the underlying partner's accounting records.</li> <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**

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.

Due to the nature of funding to the IJB from Falkirk Council and NHS Forth Valley, we rebutted the assumed fraud risk in respect of the income. For expenditure we associated the risk to the assurance over the existence and occurrence of expenditure incurred by the IJB in commissioning services from partners.

## **Specific procedures relating to the fraud risk**

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2018/19 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.
- ▶ As part of the year end process, the IJB obtained confirmation statements from the senior finance professionals at NHS Forth Valley and Falkirk Council of the spend of their 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.



### **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 of these 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 are no significant accounting practices which materially depart from what is acceptable under IFRS or other applicable requirements.

### **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.
- ▶ 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.



# Wider Scope dimensions

## **Introduction**

Under Audit Scotland's Code of Audit Practice (May 2016), we are required to reach conclusions in relation to the effectiveness and appropriateness of the IJB's arrangements for each of the four wider scope audit dimensions.

We apply our professional judgement to risk assess and focus our work on each of the 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 whether there is sufficient 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 planning is effective to support service delivery. This focuses on the arrangements to develop viable and sustainable financial plans.

### **Governance and Transparency:**

- ▶ is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

### **Value for Money**

- ▶ 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.

# Financial Management

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The IJB relied on non-recurring funding to deliver a £19,000 surplus in 2018-19, including transfers from reserves and £2.7 million in additional contributions from NHS Forth Valley to meet overspends on health services.

Unexpected reserve transfers underline that there has been insufficient transparency about spending and the impact of priority areas of investment from partners during the year.

## Financial Position

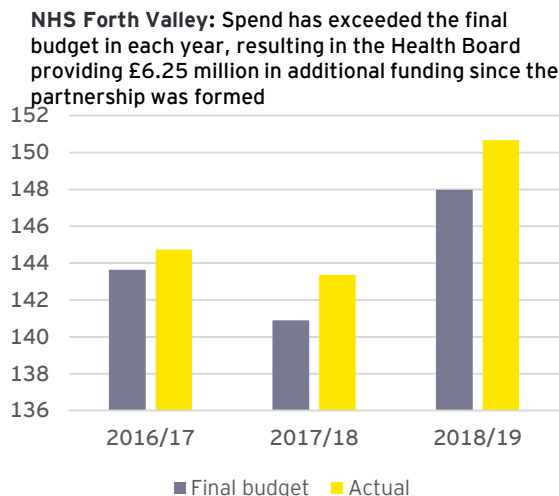
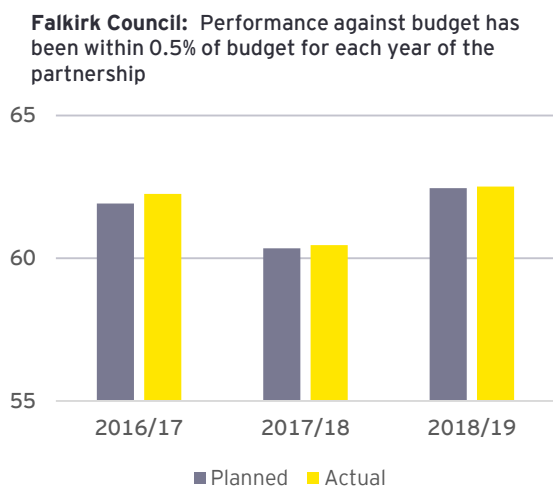
During 2018/19, the IJB reported a deficit in the cost of delivering services of £1.4 million. While Adult Social Work services recorded a £19,000 net underspend against budget, additional funding of £2.6 million was required from NHS Forth Valley to meet overspends comprised of:

- ▶ £1.264 million relating to partnership NHS services; and
- ▶ a further £1.416 million relating to set aside budgets.

Additional funding has been required from NHS Forth Valley for the third consecutive year of the partnership. There were two key areas of overspend within health services, relating to prescribing (£1.54 million) and community hospitals (£0.7 million). In total, over the last three years the prescribing spend has exceeded budget by almost £5 million, partly as a result of the growth in new medicines.

Projected overspends on Adult Social Care services were addressed by drawing on reserves and non-recurring resources. Failure to address these areas of overspend creates additional financial risk for the IJB and partners in 2019/20 and beyond.

## Exhibit 1: Significant overspends were incurred against the health budget



Source: Falkirk Integration Joint Board Financial Statements

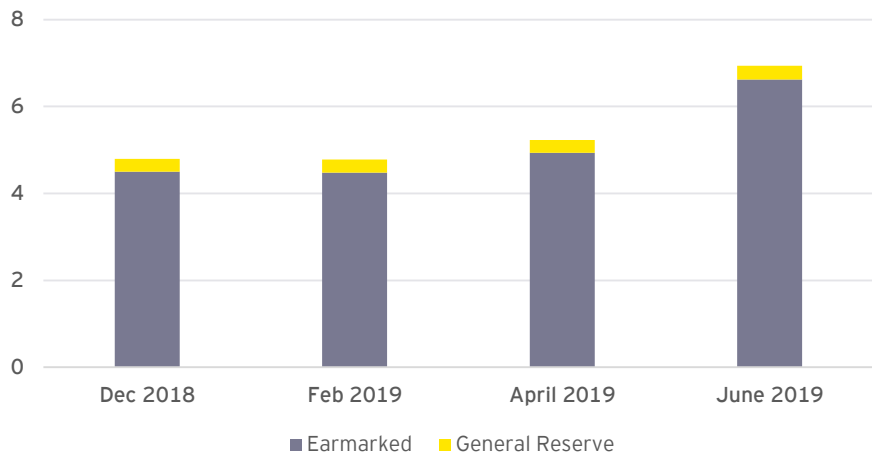
**Recommendation 1:**  
The IJB needs greater clarity on the financial position and impact of reserves.

## Reserves

The IJB holds financial reserves to build resilience for unexpected events and manage income and expenditure across years. At 31 March 2019, the IJB held reserves of £6.938 million, representing an increase of £0.45 million on the prior year. The board received regular financial monitoring reports throughout 2018/19 which included projections for the impact of over and underspends on the reserve balances.

As Exhibit 2, below, highlights, there was a significant improvement in the outturn reserves against projections within financial monitoring reports. We understand that the improved position at 31 March 2019 was primarily as a result of unexpected transfers to reserves from partners where ringfenced funding was not spent as expected. This suggests that financial monitoring information from partners was not as timely as required.

### Exhibit 2: The final reserve position was a significant improvement on projections during the financial year



Source: Financial Monitoring Reports to the IJB 2018/19

The majority of the reserves balance is allocated to earmarked projects, with £0.316 million held as an unallocated general reserve. The IJB approved an update to its reserves policy in June 2019, which revised the minimum threshold for general reserves from £0.25 million to £0.44 million, representing 0.2% of projected expenditure in 2019/20. We consider this to be a low level of reserve in the context of overspends for 2018/19 on services for which the IJB has responsibility totalling £1.264 million. In addition, we note that the information provided to IJB members on earmarked reserves does not include detail on the amount and expected timing of cashflows.

While the short-term risk sharing agreement ensures that partner bodies will meet the costs of significant overspends, this approach means that expenditure continues to be monitored based on organisational boundaries, rather than in support of the objectives of integration in the longer term. A more robust approach to financial planning and management is therefore required.

**Recommendation 2:**  
The IJB still requires to agree longer term budgeting arrangements that support the strategic vision for the partnership

### **Financial management arrangements in place**

Through the year we have observed that IJB receive regular financial monitoring reports, including forecast over and underspends for the full year. Relative to the scale of expenditure incurred by partners in undertaking their functions, the variances identified through the year indicate monitoring controls are robust.

Financial regulations have been established for the IJB, and these are kept up to date. In accordance with statutory requirements, the IJB appointed a Chief Finance Officer (CFO). We are satisfied that the IJB has made arrangements for the proper administration of its financial affairs.

# Financial Sustainability

The IJB does not yet have key strategies in place to support the delivery of the Strategic Plan, including the Medium Term Financial Plan and an Integrated Workforce Plan.

Only 61% (£2.6 million) of planned savings were delivered in 2018/19. A funding gap of £5.2 million has been identified for 2019-20 but it is currently unclear how NHS Forth Valley will deliver their share of savings, totalling £3.47 million (68.7%).

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## Strategic Priorities

In April 2019, the IJB approved the Strategic Plan 2019-22. The Plan is based on a Strategic Needs Assessment of the three localities served by the partnership, which provides an updated estimate of the impact of demand pressures. The population of people aged 75+ is expected to more than double by 2041 in the Falkirk area, creating a service demand that cannot be met under current service structures. Four key priorities have been identified for the period of the IJB's second Strategic Plan (Exhibit 3, below).

The IJB was responsible for spending £218 million in 2018/19. The Annual Performance Report highlights key areas of investment, including work that has been commissioned with the Institute of Public Care to enhance whole system working. The IJB notes that improvements from this work to date have included a reduction in numbers of people delayed while awaiting a package of care following review of home care. The IJB has also commenced work with Glasgow Caledonian University and the University of Strathclyde as part of a research project to implement a priority setting framework, which aims to deliver responsive, efficient, and sustainable home care provision that addresses personal outcomes.

### Exhibit 3: Strategic Priorities 2019-22

1. Deliver local health and social care services, including primary care services, through enabled communities and workforce
2. Ensure carers are supported in their caring role
3. Focus on early intervention, prevention and harm reduction
4. Make better use of technology to support the delivery of health and social care services

Source: Falkirk IJB Strategic Plan 2018/19

However, a report considered by the IJB in June 2019 notes that the IJB has not yet been able to change the balance of care in the way envisaged both by the Strategic Plan and the legislation that created IJBs. Areas of overspend were identified in residential, traditional care including hospital stays, while priority areas of investment in the community such as the Alcohol and Drugs Partnership and allied health professionals are underspent. The Chief Finance Officer concluded that this pattern of spend suggests that the resources available to the IJB are not being used effectively to deliver the outcomes of the Strategic Plan.



**Recommendation 3:**  
Support from partners is critical to allow the IJB to develop a MTFS.

### Financial Planning

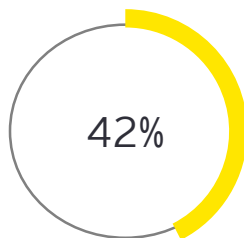
During 2018/19, the IJB has continued to develop its longer term financial planning processes. A draft Medium Term Financial Plan was presented to the board in October 2018, but a number of key assumptions were very uncertain at that time, including likely pay awards. Two workstreams have been created to develop the MTFP, and must be a priority for partners in 2019/20 and beyond.

Workforce planning will be critical to allow the IJB to make the transformational changes required to make services sustainable in the long term. The Strategic Plan highlights particular challenges associated with an ageing workforce with many staff potentially nearing retirement. The IJB's most recent Workforce Plan 2016-19 is now out of date and requires refreshed; no reports have been presented to the IJB on the progress and outcomes of the previous plan.

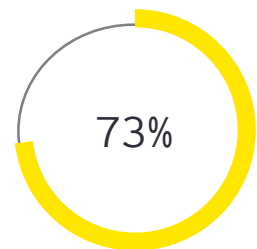
### Delivery of Savings

The 2018/19 budget noted a range of financial pressures as a result of unfunded pay awards, demographic and inflationary pressures. A target of £4.7 million in savings was set for 2018/19. As Exhibit 4, below, highlights both partners struggled to achieve the expected level of savings, and only £2.6 million of planned savings were delivered.

#### Exhibit 4: Only 61% of savings were achieved in 2018/19



NHS Forth Valley achieved savings of £0.7 million against the target of £1.7 million in 2018/19.



Savings totalling £1.9 million were delivered in adult social care, against a target of £2.6 million.

*Source: Falkirk IJB Financial Monitoring Reports*

The IJB has a required savings target of £5.2 million in 2019/20. Adult social care savings totalling £1.7 million have been approved, which draw upon the findings of a working group created to address financial pressures in 2018/19. The IJB's 2019/20 budget has, however, been set with no clear understanding of where savings in NHS Forth Valley will be delivered. An updated report in September 2019 outlined savings of £0.6 million that have been identified to date, leaving a remaining gap of £2.9 million for the IJB. We note that if, as in 2018/19, savings are not achieved as planned, there will be less scope for financial recovery.

# Governance and Transparency

While progress has been made on implementing integrated structures, the pace of change remains slow and, as reported by us in 2017/18, a number of key governance processes that are required to support integration have not been completed.

The IJB's self-evaluation of progress against key features of integration highlights that a significant level of work is required to provide the level of collaborative leadership necessary to increase the pace of change.

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## Integrated Structures

The IJB became operational on 1 April 2016, but plans to transfer all NHS in-scope services to the partnership have not yet been completed. Progress was made in 2018/19 to agree a management structure, and posts to support the locality management arrangements became operational in summer 2019. While this should provide increased management resource for the IJB, we consider that the scale of change underway means that leadership capacity remains a risk for the organisation. No agreement has yet been reached with Falkirk Council and NHS Forth Valley on support service arrangements to provide additional resource to the management team for areas such as planning and performance management.

We do, however, note that NHS Forth Valley has recently updated the Scheme of Delegation to ensure that the revised management team has the authority and accountability necessary to fulfil their role.

## Self Evaluation of Arrangements to support Integration

In November 2018, Audit Scotland published a progress report on Health and Social Care Integration. The report highlighted a number of challenges faced by IJBs that impacted the pace and effectiveness of intervention. A series of six features that support integration were identified. In February 2019, a Leadership Group led by the Ministerial Strategic Group (MSG) for Health and Community Care, and the Convention of Scottish Local Authorities (CoSLA) reported on their review of progress. The MSG developed a self-evaluation template based on the six key features of integration that each IJB considered and reported to the Scottish Government in May 2019.

The Falkirk IJB self evaluation was undertaken during a board development session in May 2019. Exhibit 5 highlights the results of the board's self-assessment and notes that significant improvement is required to create the conditions for joint working to work well and to accelerate the pace of integration. Over 80 improvement actions were identified during the self-evaluation exercise. An improvement plan requires to be developed that prioritises and provides timescales for the implementation of actions for submission to the MSG.

**Recommendation 4:**  
As we reported in 2017/18 there remains an urgent need to develop governance arrangements necessary to support greater integration.

## Exhibit 5: Falkirk IJB Ministerial Strategic Group Self Evaluation

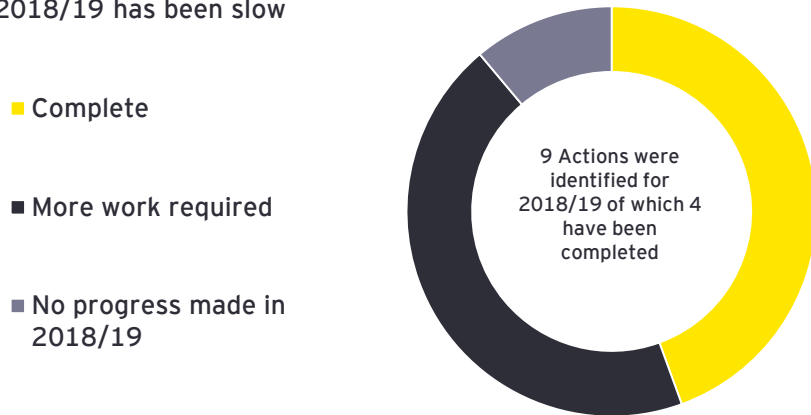
Features of Integration	Not yet established	Partly established	Established	Exemplary
<b>1. Collaborative leadership and building relationships</b>				
All leadership development will be focused on shared and collaborative practice				
Relationships and collaborative working between partners must improve				
Relationships and partnership working with the third and independent sectors must improve				
<b>2. Integrated Finances and Financial Planning</b>				
Health Boards, Local Authorities and IJBs should have a joint understanding of their respective financial positions				
Delegated budgets for IJBs must be agreed timeously				
Delegated hospital budgets and set aside budget requirements must be fully implemented				
Each IJB must develop a transparent and prudent reserves policy				
Statutory partners must ensure appropriate support is provided to IJB S95 Officers.				
IJBs must be empowered to use the totality of resources at their disposal				
<b>3. Effective strategic planning for improvement</b>				
Statutory partners must ensure that Chief Officers are effectively supported and empowered to act				
Improved strategic planning and commissioning arrangements must be put in place				
Improved capacity for strategic commissioning of delegated hospital services must be in place				
<b>4. Governance and accountability arrangements</b>				
The understanding of accountabilities and responsibilities between statutory partners must improve				
Accountability processes across statutory partners will be streamlined				
IJB chairs must be better supported to facilitate well run Boards capable of making decisions on a collective basis				
Clear directions must be provided by IJB to Health Boards and Local Authorities				
Effective, coherent and joined up clinical and care governance arrangements must be in place				
<b>5. Ability and willingness to share information</b>				
IJB annual performance reports will be benchmarked by Chief Officers to better understand local performance data				
Identifying and implementing good practice will be systematically undertaken by all partnerships				
<b>6. Meaningful and sustained engagement</b>				
Effective approaches for community engagement and participation must be put in place for integration				
Improved understanding of effective working relationships with carers, people using services and local communities				
Support carers and representatives of people using services better to enable their full involvement in integration				

Source: IJB Ministerial Strategic Group self assessment, June 2019

## Annual Governance Statement

Under the CIPFA framework for *Delivering Good Governance in Local Government*, the IJB uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2019/20. The IJB has used the Annual Governance Statement to report back on the progress against priority areas identified for improvement in 2018/19. As Exhibit 6 notes, only 4 of the 9 actions were completed as planned.

Exhibit 6: Progress against governance priorities for 2018/19 has been slow



Source: Annual Governance Statement 2018/19

## Pace of improvement

**Recommendation 5:** Board members need to be clear about their corporate responsibilities to demonstrate the leadership needed to make key decisions about the future shape of services.

In Appendix E, we note that progress against our recommendations in 2017/18 has been very limited. One of the recommendations related to the urgent need to address outstanding governance improvements set out within the IJB's Governance Action Plan. As a result of the implementation of a new improvement plan to address the MSG self-assessment, the IJB has elected to add remaining actions to a future, single, improvement plan. However, the most recent monitoring report to the Audit Committee, in December 2018, only eight of the 28 actions were considered to be complete, with a further one on course for completion. In our view, the pace of integration has fallen significantly short of the expectations set out in legislation.

Committed and collaborative leadership is required from all partners to ensure that the vision set out in the Strategic Plan can be achieved. Board members play a vital role in driving progress and supporting the integration process. During our attendance and observations at meetings, we noted occasions where there continue to be disagreements and confusion about the lines of accountability.

## Internal audit annual opinion

The IJB's Internal Audit opinion for the year concluded that while significant progress will be required in 2019/20 if the IJB is to achieve its strategic objectives and reach organisational maturity, "reliance can be placed on the IJBs governance arrangements and systems of internal controls for 2018/19." Internal audit highlighted three of the improvement actions within the Annual Governance Statement as being critical to progress integration:

- ▶ Transfer of the operational management of some in-scope NHS services to the partnership;
- ▶ Development of an action plan for the self-evaluation submitted to the MSG;
- ▶ Development of a delivery plan for the 2019-22 Strategic Plan.

We reviewed the Annual Governance Statement within the financial statements against the required guidance. While the IJB acknowledges significant governance development areas, they consider 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.

## Managing Risk

The IJB made good progress during 2018/19 to improve its approach to risk management. The Partnership Leadership Group identified priorities for the IJB's Strategic Risk Register to ensure that IJB members should have a clear focus on risks in key areas:

- ▶ Delivery of the strategic plan
- ▶ Performance, oversight and quality control
- ▶ Specific high level risks:
  - ▶ Unscheduled care
  - ▶ Transfer of NHS operational services
  - ▶ Brexit.

We concluded that risk management arrangements remain at an early stage of development. While there are clear links with risk management at Falkirk Council, we note that the IJB does not currently have dedicated risk management resource support from NHS Forth Valley. This may mean that the partnership is unsighted on emerging risks. Planned improvement work for 2019/20 includes:

- ▶ Linking the Strategic Risk Register to other work being undertaken across the IJB, for example the delivery plan, audit work and self-evaluation action plan resulting from the Ministerial Strategic Group exercise.
- ▶ Mapping the Strategic Risk Register to each partners' Corporate Risk Register, ensuring an improved awareness and escalation of risks across the Partnership.
- ▶ Development of a risk appetite statement, or guiding principles, on when risks can be accepted, or where further mitigation is required.
- ▶ Holding a development session for the IJB board members to focus on risk.

**Recommendation 6:**  
Dedicated risk management support would provide assurance to the IJB that appropriate arrangements are in place to identify and mitigate strategic risks.

## Preparations for EU Withdrawal

We noted within our Annual Audit Plan that Audit Scotland had highlighted preparations for EU withdrawal as a risk across public sector bodies. We drew on good practice guidance from Audit Scotland to assess the IJB's readiness for Brexit as at the planned departure date of 29 March 2019.

We noted that the IJB has established arrangements to work with NHS Forth Valley and Falkirk Council to ensure the necessary business continuity arrangements are in place. Falkirk Council has a specific Brexit risk register, which includes health and social care as a specific areas of risk. The IJB has also drawn on advice from the Scottish Government Health and Social Care EU Exit Response Hub.

A number of Regional Resilience Partnership workshops have been held to identify potential risks and agree planning arrangements to manage issues that arise. The key risks identified relate to recruitment and retention of staff, securing continuity of supplies, medicines, food and delivery of contracted services by external providers. For a number of areas, the IJB will rely on NHS Forth Valley to take mitigating action. In our judgement, the IJB's response and preparations are proportionate and appropriate.

In our view the IJB has undertaken a reasonable approach to assessing the impact of anticipated EU withdrawal both at 29 March and in anticipation of the revised withdrawal date.



# Value for Money

The IJB receives regular performance reports that provide assessments of areas for improvement. The Annual Performance Report was published by 31 July 2019, in line with legislation, but was subject to substantial data gaps which mean that it is difficult to assess whether the IJB is delivering Best Value.

During the year, the IJB and its partners responded to significant performance challenges. While the IJB can demonstrate that specific interventions in adult social care have been effective in delivering improvement in a short period of time, performance overall remains poor.

R  
E  
D

**Recommendation 7:**  
Performance reporting does not support the IJB's ability to demonstrate Best Value or the impact of integration.

## Performance Reporting

The IJB receives regular performance reports against a range of local and national indicators. 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. There is not yet any detailed analysis of performance or causal factors at a locality level, which may limit the ability of the IJB to identify and mitigate underlying causes. We also note that comparator information tends to be limited to the Clackmannanshire and Stirling IJB.

In July 2019, the IJB published its Annual Performance Report. The report highlighted a number of areas where progress has been made, including:

- ▶ NHS Forth Valley's continued development of the Primary Care Improvement Plan, to support a sustainable workforce and ensure that resources are best prioritised; and
- ▶ Work undertaken with the Institute of Primary Care to review whole system working and identify areas to release delays to discharging elderly and other patients.

We do, however, note that the usefulness of the annual report was limited by a number of factors including:

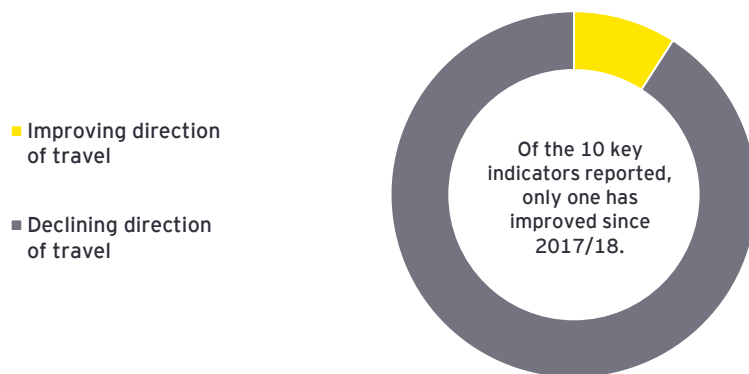
- ▶ significant data gaps as NHS Forth Valley has been unable to produce some data;
- ▶ the report is over 70 pages long and does not focus on key outcomes or priorities for the IJB; and
- ▶ there is limited assessment of the IJB's performance in relation to Best Value.

Under the Public Bodies (Joint Working) (Content of Performance Reports) (Scotland) Regulations 2014, the IJB's performance report should include an assessment of performance in relation to Best Value, including information about how the planning and delivery of services in pursuance of integration functions have contributed to securing Best Value.

**Recommendation 8:**  
Improved performance must be a key priority and focus for the IJB.

Some of the IJB's key performance indicators are reported within the Financial Statements. As Exhibit 7 highlights, Falkirk IJB's performance against 90% of the indicators areas deteriorated during 2018/19. Our assessment is therefore that the IJB is not currently able to demonstrate that it is achieving best value, or the impact of integration. The pace and impact of integration must therefore be a key priority for the IJB and its partners in 2019/20.

#### Exhibit 7: Performance against key indicators has declined in 2018/19



Source: Falkirk IJB Financial Statements 2018/19

#### Unscheduled Care

In December 2018, NHS Forth Valley was escalated to Level 3 of the NHS Board Performance Framework by the Scottish Government, classified as "significant variation from plan; risks materialising; tailored support required".

A formal recovery plan was agreed with the Scottish Government. A Site Director has been in place since 7 January 2019 and an external expert support team was provided to support improvement work, including:

- ▶ The establishment of an Unscheduled Care Hub in Forth Valley Royal Hospital. The Hub was intended to support the overall system and in particular address delays within the hospital.
- ▶ Targeted winter pressure funding to recruit additional staff through agencies to increase capacity and support patients to be discharged to their home.
- ▶ An Unscheduled Care and Delayed Discharge development session took place with the Board on 1 March 2019, which considered transformational change approaches that have been demonstrated to be effective elsewhere.

The IJB received progress reports against 3 relevant national indicators at each of its regular board meetings. In the most recent progress report, improvements had been noted against two of the indicators, relating to unscheduled occupied day beds and the 4 hour emergency access standard. However, levels of delayed discharge remain high and continue to rise.

### **Inspection Activity**

In October 2018, the IJB received a report on the results of an inspection of internal home care services. The Inspection found significant concerns around the continuity of care and auditing systems to deliver oversight and monitoring of the service.

A Home Care Review working group was established to oversee an improvement action plan. The action plan included improving staff working patterns and rotas to increase staff availability at the times when people want to have service provided, better aligning staff resource to localities, improving communication with service users and better use of data from the electronic scheduling system.

The service was subject to a further Inspection by the Care Inspectorate in March 2019. The Care Inspectorate found that the work undertaken by the service fully met the expectations agreed within the improvement plan.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit and Risk Committee

D - Action plan

E - Follow up of prior year recommendations

F - Timing and Audit Deliverables

# 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 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

## Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated 28 March 2019.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the IJB consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the audit committee on 23 September 2019.

## Audit Fees

Our work on the audit has not yet been finalised and audit fees will therefore be discussed with management before being confirmed within our final report to the Audit Committee.

	2018/19	2017/18
<b>Component of fee:</b>		
<b>Total agreed auditor remuneration</b>	<b>£18,900</b>	£16,470
<b>Audit Scotland fixed charges:</b>		
Pooled costs	<b>£1,670</b>	£1,460
Performance audit and best value	<b>£5,050</b>	£5,020
Audit support costs	<b>£1,080</b>	£1,050
<b>Total fee</b>	<b>£26,700</b>	£24,000



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 2018 UK Transparency Report, volumes one and two, can be accessed on our website at <https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

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

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

Audit Quality Framework / Annual Audit Quality Report

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

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

The most recent audit quality report which covers our work at the IJB since appointment can be found at: [www.audit-scotland.gov.uk/uploads/docs/report/2018/as\\_audit\\_quality\\_1718.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2018/as_audit_quality_1718.pdf).

# Appendix C: Required Communications

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

## Required communication

## Our reporting to you

### Related parties

Significant matters arising during the audit in connection with the entity's related parties including, when applicable:

- ▶ Non-disclosure by management
- ▶ Inappropriate authorisation and approval of transactions
- ▶ Disagreement over disclosures
- ▶ Non-compliance with laws and regulations
- ▶ Difficulty in identifying the party that ultimately controls the entity

No significant matters have been identified.

### Independence

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:

- ▶ The principal threats
- ▶ Safeguards adopted and their effectiveness
- ▶ An overall assessment of threats and safeguards
- ▶ Information about the general policies and process within the firm to maintain objectivity and independence

Annual Audit Plan

This Annual Audit Report - Appendix B

### Internal controls

Significant deficiencies in internal controls identified during the audit

This Annual Audit Report - no significant deficiencies reported

### Subsequent events

Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements.

We have asked management and those charged with governance. We have no matters to report.

### Material inconsistencies

Material inconsistencies or misstatements of fact identified in other information which management has refused to revise

Annual Audit Report

# 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 final reserves position was a significant improvement on levels projected throughout the financial year. Unexpected underspends against earmarked funds meant that priority areas of investment for the IJB may not have had the impact envisaged.	The IJB must ensure that financial reporting from partners supports greater transparency on the use and impact of reserves.  <i>Grade 2</i>	Accepted.  Partnership Funding reserves are project driven and in some cases, confirmation of spend for the year, through monitoring returns, can be late and this impacts on projections. Steps will be taken to try and improve this process.  For the remaining reserves, processes will be reviewed to ensure an improved reporting framework is developed.  <b>Responsible officer:</b> IJB Chief Finance Officer Falkirk Council Chief Finance Officer NHS FV Director of Finance  <b>Implementation date:</b> 31 March 2020

## Classification of recommendations

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
2	<p>The IJB recognised within its self- evaluation that insufficient progress has been made to ensure that funding loses its identity. Current financial monitoring reports focus on the source of funding rather than how the funding has been used to support the delivery of the Strategic Plan. One of the contributing factors is the short term risk sharing agreement which necessitates budget monitoring by partner bodies'.</p>	<p>Longer-term budget management arrangements, especially in respect of risk sharing arrangements need to be embedded and agreed between the partners.</p> <p>Robust recovery plans must be developed for areas of overspend to ensure that partners are not subject to unexpected financial risk.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Accepted.</p> <p>Work is underway to develop a longer term approach to risk sharing and to developing recurrent savings. Partners recognise the importance of this.</p> <p>This is dependent on progress with integration and links to the due diligence exercise required for services where the operational management is transferring to the Partnership. This work must be progressed at pace by all partners.</p> <p><b>Responsible officers:</b></p> <p>Chief Officer &amp; Chief Executives IJB Chief Finance Officer Falkirk Council Chief Finance Officer NHS FV Director of Finance</p> <p><b>Implementation date:</b></p> <p>31 March 2020</p>
3	<p>The IJB has identified that changes in service delivery are needed to develop financial sustainability. While progress has been made to develop integrated structures, the pace has been slower than anticipated.</p> <p>A key element of a longer term plan will be the identification of sustainable savings through both service change and efficiency.</p>	<p>Continued work is required to finalise a medium-term financial strategy, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis and the IJBs Strategic Plan is delivered.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Accepted.</p> <p>High level financial data has been provided to allow a projected financial gap for the IJB to be projected over the medium term. More work is required to consider the impact of key cost drivers and how these can be mitigated over the period. The development of a robust medium term financial plan will require planning support as well as input from officers across the Partnership to ensure changes to service delivery models are developed collaboratively and have the necessary impact.</p> <p>A robust medium term financial plan will be dependent on an increase in the pace of integration.</p> <p><b>Responsible officer:</b></p> <p>Chief Officer &amp; Chief Executives IJB Chief Finance Officer Falkirk Council Chief Finance Officer NHS FV Director of Finance</p> <p><b>Implementation date:</b></p> <p>31 March 2020</p>

## Classification of recommendations

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
4	A number of key governance arrangements necessary to support integration are not in place. The level of management capacity available means that the scale and pace of change is at risk.	Partners must agree support service arrangements to provide additional resource and capacity for the IJB to deliver the Strategic Plan.  <i>Grade 2</i>	Accepted.  Work is underway by each of the Partners to produce a report on support services for the IJB. This report will be produced in collaboration with the Chief Officer.  <b>Responsible officer:</b> Chief Officer & Chief Executives Heads of HR - Falkirk Council & NHS Forth Valley <b>Implementation date:</b> 31 December 2019
5	During our attendance and observations at meetings, we noted occasions where there continue to be disagreements and confusion about the lines of accountability.	Board members need to be clear about their corporate responsibilities to the IJB, and demonstrate the leadership needed to deliver the necessary change and make key decisions about the future shape of services.  <i>Grade 1</i>	Accepted.  A programme of leadership development is ongoing across the Board which will seek to address these issues.  <b>Responsible officer:</b> IJB Board Members Chief Officer & Chief Executives  <b>Implementation date:</b> 31 December 2019
6	We note that the IJB has taken steps to improve risk management arrangements during 2018-19. However, the lack of dedicated risk management support from NHS Forth Valley may not provide sufficient assurance to the IJB that appropriate arrangements are in place to identify and mitigate risk.	The IJB must satisfy itself that risk management support is sufficient from both partners, and that mitigation arrangements for key strategic risks are prioritised and appropriate.  <i>Grade 1</i>	Accepted.  NHS Forth Valley is in the process of increasing the risk management support available to the Health Board and the IJBs.  <b>Responsible officer:</b> Chief Executive, NHS Forth Valley NHS FV Director of Finance <b>Implementation date:</b> 31 March 2020



## Classification of recommendations

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
7	<p>There to scope to make the Annual Performance Report more accessible and user friendly by focusing on key priorities, achievements and challenges.</p> <p>We also note that the report was published before it had been considered by the IJB in order to meet the statutory deadline of 31 July.</p>	<p>The IJB should review the processes in place to produce the Annual Performance Report to ensure that it provides sufficient information to allow users to assess whether the IJB is achieving Best Value.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Accepted.</p> <p>The processes in place for preparation of the Annual Performance Report will be reviewed.</p> <p><b>Responsible officer:</b>                      Chief Officer &amp; Chief Executives                      Senior Service Manager - Performance &amp; Planning                      Falkirk Council Service Manager - Performance                      NHS FV Performance Manager</p> <p><b>Implementation date:</b>                      31 July 2020</p>
8	<p>The IJB reports performance against a range of indicators and outcomes in the Financial Statements and its Annual Performance report.</p> <p>Performance against a number of indicators has declined both against prior year and against comparators.</p>	<p>The IJB must ensure that key areas of performance are prioritised to deliver constituent improvement and pace.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Accepted.</p> <p>Delivery of this recommendation will be dependent on progress with integration and the support services agreement. The Partnership needs the appropriate support and capacity to deliver on the transformation work required to see an improvement in performance in key areas.</p> <p><b>Responsible officer:</b>                      Chief Officer &amp; Chief Executives                      IJB Board Members</p> <p><b>Implementation date:</b>                      31 March 2020</p>

# Appendix E: Follow up of prior year recommendations

This section of our report summarises our assessment of the IJB's progress against the recommendations that we identified during our 2017/18 audit.

Prior year recommendations			
No.	Recommendation / grading	Management response/ Implementation timeframe	Our assessment of progress
1	<p>Longer-term budget management arrangements, especially in respect of cost sharing arrangements need to be embedded and agreed between the Partners.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The one year agreement for 2017/18 reflects the transitional phase that the IJB is in. This transition is expected to continue throughout 2018/19. Subsequently another one year agreement may be required. However, it is recognised and accepted that a formal, long term agreement will be required.</p> <p>Implementation date: Ongoing</p>	<p>As expected, a further one year risk sharing agreement was established for 2018/19. No agreement has yet been reached on budget management arrangements for 2019/20 and beyond.</p> <p>Our assessment: <b>Incomplete</b></p>
2	<p>Continued work is required to finalise a medium-term financial strategy, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis and the IJBs Strategic Plan is delivered.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Agreed. An outline Medium Term Financial Plan is expected to go to the IJB in October 2018. The savings plan is expected to go alongside an updated Medium Term Financial Plan in December 2018.</p> <p>Implementation date: October 2018 and then ongoing.</p>	<p>The Medium Term Financial Plan was submitted to the IJB as planned. Further development of the Plan has not been possible as a result of limitations in financial information from partners.</p> <p>Our assessment: <b>Limited progress</b></p>
3	<p>While it is currently anticipated NHS in-scope services will transfer to the IJB during 2018/19, this has still be approved. The pace of integration requires significant improvement.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>There is an IJB Development session planned for 21 September 2018 with support from Scottish Government to review the role of the IJB, chief Officer and governance. This will inform the continued development at the proposed structure which will be submitted to the IJB meeting on 5 October.</p> <p>Implementation date: Ongoing</p>	<p>While the proposed structure has been agreed, no progress has been made on transferring in-scope services during 2018/19.</p> <p>Our assessment: <b>Incomplete</b></p>
4	<p>Notwithstanding the progress that has been made, a large number of actions remain to be fully implemented across the governance framework and increased focus is required to address the outstanding actions, with a focus on addressing the red graded items.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>The outstanding actions will be prioritised with a focus by the leadership team to be completed by March 2019.</p> <p>Implementation date: Ongoing</p>	<p>As we note within Exhibit 6, the governance action plan has been superseded by a revised improvement plan for the MSG. At the most recent update, limited progress had been made.</p> <p>Our assessment: <b>Limited 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 2018/19 audit cycle.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"> <li>➤ Audit planning and setting scope and strategy for the 2018/19 audit</li> </ul>	Annual Audit Plan	29 March 2019
MAR			
APR			
MAY	<ul style="list-style-type: none"> <li>➤ Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information</li> </ul>	n/a - as appropriate	n/a
JUN			
JUL	<ul style="list-style-type: none"> <li>➤ Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Audit clearance meeting	July / August 2019
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	27 September 2019

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