

Dumfries and Galloway  
Integration Joint Board  
Audit and Risk Committee

9<sup>th</sup> September 2021

This Report relates to  
Item 5 on the Agenda

# External Audit Annual Report

*Paper presented by Joanne Brown*

*For Scrutiny and Review*

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<b>List of Background Papers:</b>	Not required
<b>Appendices:</b>	<b>Appendix 1</b> – External Audit Report for the Financial Year end 31 March 2021

Direction Required to Council, Health Board or Both	Direction to:	
	1. No Direction Required	X
	2. Dumfries and Galloway Council	
	3. NHS Dumfries and Galloway	
	4. Dumfries and Galloway Council and NHS Dumfries and Galloway	

1.	<b>Introduction</b>
1.1	This paper provides the Integration Joint Board with an update on the work of the External Auditors.
2.	<b>Recommendations</b>
2.1	<p><b>The Integration Joint Board is asked to:</b></p> <ul style="list-style-type: none"> <li>• <b>Scrutinise and review the attached report for Dumfries and Galloway Integration Joint Board/ External Audit Annual Report to those charged with Governance and the Controller of Audit for the 2020/21 financial year.</b></li> </ul>
3.	<b>Background and Main Report</b>
3.1	<u>Background</u>
3.2	The Audit and Risk Committee previously agreed the External Audit Plan set out by Grant Thornton as our External Auditors on how they will discharge their responsibilities as set out in the Audit Scotland Code of Audit Practice 2016, as well as requirements under International Standards of Auditing (ISA's) (UK and Ireland).
3.3	<u>Main Report</u>
3.4	A draft set of our accounts was issued to the auditors following the IJB the 30 <sup>th</sup> June 2021, to enable the auditors to commence the external audit work during the July/August and conclude to provide final assurance for the Audit and Risk Committee on the 9 <sup>th</sup> September 2021.
3.5	<p>Their approach delivers:</p> <ul style="list-style-type: none"> <li>• A robust challenge of the judgements and key aspects of the financial statements, in particular in relation to the significant and other audit risks outlined in their plan.</li> <li>• A focus on wider scope arrangements across the four audit dimensions aligned to our key areas of risk: financial management; financial sustainability; governance and transparency and value for money.</li> <li>• An understanding of Dumfries and Galloway Integration Joint Board and the strategic challenges, pro-actively engaging throughout the year with us.</li> <li>• A clear and concise annual report addressed to those charged with governance and the Controller of Audit, reporting the outcome of their work during the year. The report will reflect the key judgements and conclusions over the arrangements as relevant to Grant Thornton's Audit Role.</li> </ul>
3.6	The full report prepared by the External Auditors following their audit review for 2020/21 is set out in <b>Appendix 1</b> . The audit opinion provided is a unmodified audit opinion.
4.	<b>Conclusions</b>
4.1	The Committee are asked to review the External Auditors Report as presented.

<b>5.</b>	<b>Resource Implications</b>		
5.1.	There are no resource implications identified.		
<b>6.</b>	<b>Impact on Integration Joint Board Outcomes, Priorities and Policy</b>		
6.1.	The development of robust External Auditing arrangements is a fundamental requirement of our overall governance arrangements.		
<b>7.</b>	<b>Legal and Risk Implications</b>		
7.1.	There are no legal or risk implications identified.		
<b>8.</b>	<b>Consultation</b>		
8.1.	Consultation Chief Finance Officer, Chief Officer.		
<b>9.</b>	<b>Equality and Human Rights Impact Assessment</b>		
9.1.	As this report does not propose a change in policy/strategy/plans, no impact assessment has been carried out.		
<b>10.</b>	<b>Glossary</b>		
10.1	All acronyms must be set out in full the first time they appear in a paper with the acronym following in brackets.		
	<table border="1"> <tr> <td>ISA</td><td>International Standards of Auditing</td></tr> </table>	ISA	International Standards of Auditing
ISA	International Standards of Auditing		

# External Audit Report for Dumfries and Galloway Integration Joint Board

Financial year ended 31 March 2021

Prepared for the Board of Dumfries and Galloway Integration  
Joint Board (IJB) and the Controller of Audit

DRAFT FOR THE AUDIT AND RISK COMMITTEE 9 September 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Board or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive Summary

This table summarises the key findings and other matters arising from the external audit of Dumfries and Galloway Integration Joint Board (IJB) financial statements for the year ended 31 March 2021 for those charged with governance ('the Board') and the Controller of Audit.

## Financial Statements

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the financial statements have been prepared in accordance with IFRS's, as interpreted and adapted by the 2020/21 Local Government Accounting Code of Practice
- Prepared in accordance with requirements of Local Government (Scotland) Act 1973, the Local Government accounts (Scotland) regulations 2014, and the Local Government in Scotland Act 2003
- The inclusion of the Annual Governance Statement is in line with guidance alongside other prescribed matters

We are also required to report whether other information published together with the audited financial statements in the Annual Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely the week commencing 23 August 2021. Our findings are summarised on pages 8 to 18. We have identified [0] audit adjustments in our work to date. Minor disclosure amendments have been agreed and will be updated in the final annual report and accounts to be considered by the Board. We note one unadjusted difference, not posted in the Council, related to personal protective equipment. Had it been in the Council accounts it would have been included in the IJB accounts. The details and impact on the IJB are set out on page X. The balances are below materiality, and we are comfortable they are not adjusted within the IJB accounts.

Our recommendations arising from this year's audit are set out in Appendix 2, with follow up of prior year external audit recommendations set out in Appendix 3.

We conclude that the Remuneration Report, where marked subject to audit, has been prepared in accordance with requirements and is materially correct.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of the IJB and the financial statements we have audited.

Our audit report opinion (audit report) is unmodified (subject to completion of outstanding audit work).

# Executive Summary

## Wider scope audit

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. We are required to consider the Board's arrangements in respect of the wider dimensions of public audit covering: financial management; financial sustainability; governance and transparency; value for money. In local government we are also required to consider Best Value.

We documented our assessment of wider scope risks in our audit plan. Through our audit procedures we have not identified any further wider scope risks. In accordance with the Code, we outline the work undertaken in response to the risks and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

We have considered our wider scope risks over financial sustainability and governance during Covid-19.

During Covid the IJB Board met monthly to consider business with delegated powers out with the Board resting with the Chief Officer, in accordance with Standing Orders. However, during 2020/21 these delegated powers were not required. Meetings were held throughout on teams, both Board and for two of the three sub-committees. Finance and Performance was stood down throughout the year, but the business of this committee was reported to the Board directly. There was a brief period where no meetings took place and this was due to a Covid-19 peak in the Dumfries area in January and February 2021.

In-year the IJB achieved a breakeven financial position. Overspends within the NHS delegated budgets were met by the NHS, as agreed in the Integration Scheme. In addition, additional Covid-19 funding was received, from Scottish Government via the Council and NHS. This was used to fund additional expenditure in-year due to Covid. Due to timings of funding, a number of balances are carried forward into 2021/22 via earmarked reserves. This is to support continued Covid pressures, including adult social care winter pressures, per winter planning.

The NHS has moved to operating on a 1 year financial planning and reporting cycle for 2021/22. Medium term financial planning will continue going forward, once the NHS is in a period of re-mobilisation and recovery. Similarly the Council continues to operate on an annual financial settlement. Therefore it is difficult for the IJB to undertake financial planning, including scenario plans beyond a one year horizon.

The SAM programme was paused in 2020/21 whilst the NHS faced the Covid-19 pandemic. This has now restarted, with the partner organisations to the IJB requiring to deliver a substantial level of savings in-year, of which circa £12 million has not yet been identified, as at September 2021.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff amidst the pressure they were under during these unprecedented times.

# Introduction

## Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at the IJB. The scope of our audit was set out in our External Audit Plan communicated to the Audit and Committee in March 2021

The main elements of our audit work in 2020/21 have been:

- An audit of the IJB's annual report and accounts for the financial year ended 31 March 2021;
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2016 ('the Code'). This includes the consideration of Best Value, as a statutory obligation within Local Government.
- Any other work requested by Audit Scotland and/or the Accounts Commission. In particular the contribution of a data return to support the Local Government overview reporting.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the Board and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

## Responsibilities

The IJB is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the Local Government Accounting Code and respective legislation. The IJB is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Adding value through our audit work

We aim to add value to management and those charged with governance through our external audit work. We use our wider public sector knowledge, to deliver an ISA risk based compliant audit, based on our determined materiality. We seek to provide constructive recommendations designed to support management mitigate areas of risk and strengthen the organisation's control environment. Through our wider scope work and interactions, including those at Audit and Risk Committee meetings, we seek to help the IJB identify and promote good practices whilst supporting improvements. In particular during 2020/21 we have supported management and the IJB Audit and Risk Committee in considering the assurances in place over how best value is achieved and the sources of this assurance, including assurances from the two partner organisations.



# Audit of the annual report and accounts

## Key messages and judgements

We plan to issue an **unmodified** audit opinion on the annual report and accounts [subject to completion of outstanding work].

We have identified no adjustments to the financial statements. We identified minor disclosure enhancements and these have been agreed with management.

We have raised two recommendations for management and these are set out in Appendix 2.

Audit work outstanding as at 30 August is: Completion of the disclosure checklist; Council expenditure testing to be concluded; income variances due to covid explanations; management override (journals). In addition, the final audit concluding activities we expect to be o/s at this stage: Partner file review; audit quality checks, final analytical review, subsequent events, and going concern.

## Our audit opinion

For the financial year ended 31 March 2021 we plan to issue an **unmodified opinion** on the annual report and accounts [subject to completion of outstanding work]. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation

## The audit process

Our audit commenced late August 2021. This was slightly later than the timescale we set out in our audit plan. This was due to our resourcing and the impact on delays elsewhere in our audit portfolio. However, we have still concluded our audit work to report to the Audit and Risk Committee and the Board, as planned, in September.

The unaudited accounts were made available for inspection by the end of June 2021. The quality of the unaudited accounts was good and the accounts process was supported by working papers provided by either the NHS finance team or the Council finance team.

There were no adjusted or unadjusted misstatements to the accounts [subject to completion of audit]. Minor disclosure adjustments were discussed and agreed, although these were not material or considered significant.

## Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan. We updated our audit materiality to reflect the 2020/21 unaudited financial statements. It is set at £8.86 million, representing 2% of gross expenditure. Performance materiality was set at £6.2 million, representing 70% of our calculated materiality.

We report to management any difference identified over £250,000 (Trivial capped at £250,000 by Audit Scotland).

We applied a lower materiality threshold for Directors Remuneration disclosures within the Remuneration Report to ensure that remuneration has been disclosed within the appropriate bandings.

## Internal control environment

In accordance with ISA requirements we have developed an understanding of the IJB's control environment, specifically as related to our significant audit risk areas (override of control and risk of fraud in expenditure). In considering the IJB controls we also considered the partner controls of NHS Dumfries and Galloway and Dumfries and Galloway Council.

The IJB uses the systems within the Council and the NHS to manage its financial records. Council and NHS Management have provided assurances to the IJB that the charges for the services commissioned reflect the income and expenditure recorded in their respective financial systems, and that data held is complete and accurate. These assurances inform the production of the annual IJB accounts and the IJB annual governance statement. In addition, we have obtained independent confirmations from the Council and the NHS over the completeness and occurrence of income and expenditure transactions recorded in the IJB annual report and accounts.

Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

## The IJB's financial performance during 2020/21

The annual report and accounts set out a financial breakeven position as at 31 March 2021. This was delivered as set out in the integration scheme. The NHS experienced cost pressures and overspends in year, from their delegated budget which they funded.

Overall planned saving programmes were impacted during the year by Covid-19. This was funded through non-recurring funding, used to offset overspends compared to budget across the IJB delegated services. In addition there was significant additional Scottish Government funding to support the IJB during the covid-19 pandemic. Pressures and savings not met arose due to, for example, reduction in activity driven spend, including via SLA's where activity was lower than forecast; workforce vacancies not filled in-year; reduction in travel and subsistence.

As at 1 April 2020 the IJB had reserves of £2.54 million. These were attributed to the Social Care Fund and Alcohol and Drug partnership monies. As at 31 March 2021 the closing reserve balance was £16.41 million. This was a result of slowing spend on specific projects and additional resources, including Scottish Government funding of Adult Social Care winter plans. The IJB only hold ringfenced reserves and have no general/unearmarked reserves. Covid-19 costs in 2021/22 will be first met through the additional Covid-19 funding received in 2020/21 and not used, ringfenced in reserve at year-end.

## Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p><b>Management override of controls</b></p> <p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the IJB's controls for specific transactions. We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement. This includes manual journals as well as critical judgements or estimates.</p>	<ul style="list-style-type: none"> <li>• We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures. In doing this work we have concluded there are no significant estimates and judgements within the annual report and accounts.</li> <li>• Journals testing including:             <ul style="list-style-type: none"> <li>• Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;</li> <li>• Testing of journals within our external audit of the NHS and Council, understanding which journals relate to the IJB and relevant to our audit.</li> <li>• Assessing where incentives may be in existence for management override of control, beyond journals recognising limited opportunity within the IJB.</li> </ul> </li> </ul> <p><b>Conclusion</b></p> <p>Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement [journals testing from NHS and Council complete. [O/s work is reviewing any additional opportunity to override control and our testing strategy is appropriate].</p>

## Risks identified in our Audit Plan

### Risk of fraud in expenditure recognition

As set out in the Financial Reporting Council (FRC)'s Practice Note 10 revised (PN10 revised) which applies to Public Sector entities, auditors of public bodies should consider the risk of misstatement in expenditure recognition. The IJB's material expenditure stream relates to Health and Social Care costs reflecting the services commissioned from NHS Dumfries and Galloway and Dumfries and Galloway Council and reflects the costs incurred by these parties in delivering those services. The Integration Scheme provides that any underspend is retained by the relevant partner body delivering the service, i.e. Health Board/Council, unless agreed otherwise by the IJB. Likewise, any overspend incurred in delivering the service is borne by the Health Board/Council unless agreed otherwise with the IJB and the other partner. There is therefore limited incentive for either of these parties to under or overstate costs incurred by the IJB.

We therefore focus our risk on year end cut-off arrangements, where it may be advantages for management to show a more favourable financial position in the context of reporting to Scottish Government and the need to achieve the financial targets set, particularly given increasing patient demand and costs pressures that the IJB is facing.

## Commentary

- We performed walkthroughs of the controls and procedures over other operating expenditure streams;
- Substantive testing of expenditure throughout the year to confirm its occurrence and accuracy of recording – placing reliance on our testing within the NHS and Council;
- Focused substantive testing of expenditure recognised post year end to identify if there is any potential understatement to address the risk of cut-off;
- Focused substantive testing of expenditure in the final two months of the year to identify if this has been potentially overstated to address the risk of cut-off; and
- Review of accruals, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.

### Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or provisions balances at year end. [subject to completion of Council expenditure testing]

## Significant estimates and judgements

The IJB's financial statements including the following significant accounting estimates and judgements impacting on the annual accounts:

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
None	The note within the IJB Accounting policies (Note 3 significant estimates and judgements) confirms there is no judgements or estimates within the IJB accounts.	We have confirmed there are no significant estimates or judgements within the IJB Accounts. We have proposed a minor disclosure adjustment on the description of the Accounting Policy note which has been updated within the final accounts.	Not applicable
Personal protective equipment	In June 2021 a change of approach was agreed between Scottish Government and Audit Scotland in respect of whether personal protective equipment costs should be treated within the Council, NHS and therefore respective IJB accounts as transactions on an agency or principle basis. Certain costs were allocated by NHS National Services Scotland to Dumfries and Galloway Health and Social Care partnerships, and social services costs. For Dumfries and Galloway these were £1.834 million of predominantly gowns, masks, gloves, hand sanitiser.	The change in accounting treatment was agreed in June 2021 after the Council had produced unaudited accounts. Given the value, the Council have considered this not material to the Council accounts and external audit have captured as an unadjusted misstatement. As the balance is not within the Council accounts, it cannot be reflected within the IJB accounts, as sits within the Council delegated budgets. Therefore for completeness we have captured this as an adjustment to the IJB accounts. This is not considered material to the IJB accounts.	Not applicable – See Appendix 1 Audit adjustments

### Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the IJB and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 Local Government Accounting Code.
- We enquired of management and the Audit and Risk Committee, concerning the IJB's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the IJB's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the IJB's financial performance for the year and potential management bias in determining accounting estimates and carry forward of income within reserves.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the IJB's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the IJB's control environment, including the policies and procedures implemented by the IJB to ensure compliance with the requirements of the financial reporting framework.



## Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

Issue	Commentary
<b>Matters in relation to fraud and irregularity</b>	It is the IJB's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
<b>Accounting practices</b>	We have evaluated the appropriateness of the IJB's accounting policies, accounting estimates and financial statement disclosures. No matters were identified to bring to your attention.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed. The principal related parties are NHS Dumfries and Galloway and Dumfries and Galloway Council.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect [subject to completion of o/s testing and final review]
<b>Opinion on other aspects of the annual report and accounts</b>	<p>We are required to give an opinion on whether the parts of the Remuneration Report subject to audit have been prepared properly in accordance with the requirements of the relevant legislation and Local Government Accounting Code. We have audited the elements of the Remuneration Report , as required by the Code and are satisfied that these have been properly prepared in accordance with applicable legislation.</p> <p>The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with relevant legislation and local government accounting requirements.</p>

Issue	Commentary
<b>Governance statement</b>	The report outlines the governance framework in place at the IJB. The statement includes scope of responsibilities, governance framework, an assessment of internal financial controls. Internal Audit during the year provided a reasonable assurance internal audit opinion over the IJB control environment.
<b>Matters on which we report by exception</b>	We are required to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit. We have nothing to report in respect of these matters.
<b>Written representations</b>	A letter of representation has been requested from management, which is included in the Audit and Risk Committee papers.
<b>Going concern</b>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the IJB meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management’s assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>



# Wider scope audit

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work the wider scope audit dimensions: financial management; financial sustainability; governance and transparency and value for money. We take a risk based audit approach, utilising our cumulative audit knowledge of the organisation and understanding of its risks and priorities. Within our annual audit plan we identified two significant wider scope risks in relation to medium term financial sustainability and governance and transparency during the Covid-19 pandemic. We also identified consideration by the IJB on how it sought and received assurance it was delivering best value (see page 18)

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p><b>Financial sustainability</b></p> <p>Financial sustainability looks forward to the medium and longer term to consider whether the IJB is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<p>Consideration of the medium to long term financial sustainability of the IJB. We will consider how Covid-19 has impacted on the IJB's financial strategy and understand particular areas of cost pressures identified during the year. We will focus on in-year financial performance and review the extent to which savings delivered during 2020/21 represent sustainable recurring savings. We will understand the impact on the IJB of additional Covid-19 expenditure and how these have been funded in-year and any future year financial implications. We will review the IJB's medium term financial plan.</p>	<p>We noted on page 7 that the IJB achieved a breakeven financial position in 2020/21. As agreed in the Integration Scheme the partner organisation who achieves an overspend on their delegated budget must provide the additional funding, to support delivery of the in-year budget agreed. In 2020/21 the NHS met the additional pressures, through release of ring-fenced funding, in-year savings and additional Covid-19 support from Scottish Government.</p> <p>In May 2020 a financial paper was presented to the IJB Board setting out the budget for 2020/21 and where savings were required, to support the delivery of financial breakeven. Included within this paper were forecasts of savings for 2021/22 and 22/23. However, it was noted that this financial framework was produced before Covid-19 and did not reflect the impact of Covid and the increasing uncertainty over funding Covid, or longer term Council and NHS Funding.</p> <p>During the financial year additional costs due to Covid-19 were captured and monitored through the financial framework to mobilisation plan, submitted by the NHS to Scottish Government.</p> <p>The Sustainability and Modernisation Programme (SAM) was paused in 20/21 as the NHS focused on Covid response. The programme has restarted but this is still through a lens of ongoing Covid-19 response and recovery. The programme, managed via a programme office approach continues to have 4 main workstreams: modernisation and transformation, clinical efficiency, workforce and finance.</p> <p>The budget for 2021/22 forecasts a breakeven position. The budget includes forecasted savings in-year of £27.6million, resulting in total expenditure forecast of £409.142 million. In addition, it is anticipated in-year additional funding will be required to support the continued Covid-19 response.</p>	<p>It is recognising that the Covid-19 response is ongoing and this will be followed by a period of recovery. The earmarked reserves of the IJB have increased substantially as at 31 March 21, recognising the timing of Scottish Government additional funding including Adult Winter planning. It is fully intended by the IJB that this money will be spent in year, in full.</p> <p>The IJB aside from Covid still needs to deliver savings in 21/22 of £27.6 million (with a remaining gap of £12.93 million still to be identified as at September 2021). This will be challenging. There is also no certainty over future NHS and Council funding. Within the NHS the 3-year financial framework was suspended, with the NHS moving back to a one year recovery and re-mobilisation plan. This makes longer term financial planning difficult for all parties including the IJB.</p>

Wider scope dimension	Wider scope risk identified in our audit plan	Wider scope audit response and findings	Grant Thornton conclusion
<p><b>Governance and transparency</b></p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Our audit plan identified a potential significant audit risk over governance and transparency of the IJB, in particular openness of decision making, during the Covid-19 pandemic. This was an area of risk recognised in the Audit Scotland Planning guidance for the 2020/21 audits.</p>	<p>In April 2020 in accordance with the Integration Scheme the Chair and Vice-Chair of the Board rotated, between the Council and the NHS. This change is built into the Scheme of Integration, on a two-year cycle. The Board Chair is now an NHS non-Executive, with the Vice-Chair an elected Councillor.</p> <p>In April 2020 a decision was taken to suspend normal IJB governance. At this time, should they be required, as set out within the IJB Standing Orders, the Chief Officer has delegated authority to act. Governance arrangements agreed included:</p> <ul style="list-style-type: none"> <li>- Meetings to be held on Microsoft teams, with a move to monthly IJB Board meetings</li> <li>- Meetings limited to two hours. All questions to be submitted to report authors in advance of the meeting.</li> <li>- Meetings closed to the public but recorded and minutes and reports to remain available on the IJB website.</li> </ul> <p>Over this time period the Chief Officer did not need to use the delegated powers enacted.</p> <p>In March 2021 it was agreed to return to normal governance arrangements albeit meetings to remain on Teams. This included the return of working groups and workshops.</p> <p>The Audit and Risk Committee and the Clinical and Care governance Committee all met using Teams in year, with business recorded. The finance and performance committee was stood down but business that would usually be through this Committee was reported at the monthly IJB Board meetings.</p>	<p>Good governance continued to be maintained during the Covid-19 pandemic. Whilst meetings were shortened, the opportunity to ask questions remained and the papers, whilst shortened, did not impact on openness or transparency and supported decision making.</p> <p>The Chief Officer did not require the additional powers allowed for in the Standing Orders and all decisions were taken in accordance with the Standing Orders and Board governance.</p> <p>The minutes and papers are all available on-line and are clear, supported by succinct cover sheets.</p>

Wider scope dimension	No wider scope risk but update provided	Audit Response	Grant Thornton conclusion
<p><b>Governance and transparency</b></p> <p>Governance and transparency is concerned with the adequacy of governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>IJB Directions update</p>	<p>In May 2021 the IJB Board approved an IJB Directions policy. This was in line with Health and Social Care Integration – Statutory Guidance – Directions from Integration Authorities to NHS and Councils, published by the Scottish Government in January 2021.</p> <p>This guidance introduced improving practices for issuing and implementing directions.</p> <p>The policy established a consistent process for issuing, reviewing and monitoring directions. This included a standard covering report which set out the required delivery of the delegated function, alongside financial implications.</p> <p>All Directions issued are captured in a log and this is maintained.</p> <p>Alongside this policy, the May IJB Board approved the list of Directions issued to the NHS and Council for 2021/22.</p> <p>The IJB continues to work in partnership with the NHS and the Council over the Integration Scheme.</p>	<p>The IJB has considered and adopted the good practices identified within the Scottish Government statutory guidance issued in January 2021.</p>

# Best Value

Best Value is ensuring there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public. The duty of Best Value applies to all public bodies, including the IJB. While not directly delivering services, it is essential that the IJB is able to demonstrate and evidence the achievement of best value, including respective assurances from the Council and the NHS. As the IJB was established under Local Government legislation it is required as a statutory obligation to demonstrate and evidence best value.

Overview	Audit Response	Grant Thornton conclusion
<p>The IJB continues to explore its role and remit, as related to Best Value, and where the IJB itself as a strategic commissioning authority demonstrates best value or where that assurance (and activity) rests with the partner bodies.</p>	<p>During the year we have continued to discuss with the Chief Officer and the Chief Finance Officer the IJB's arrangements for demonstrating Best Value. A paper was taken to the June Audit and Risk Committee which captured these discussions proposing a framework of assurance.</p> <p>There is recognition, due to the nature of the IJB entity, that most of the assurance over best value and the achievement of best value rests within the partnership organisations – the Council and the NHS. The assurance framework sought to set out what aspects of Best Value stayed with the IJB, and as a commissioning organisation they are able to demonstrate and how this assurance would build from assurances coming from the partners (NHS and Council).</p> <p>Specific best value assurances have been sought via the respective Chief Executives that inform the annual accounts in particular the annual governance statement.</p>	<p>As the external auditor of both the NHS and the Council we are able to confirm that both organisations consider and assess how they deliver and evidence best value.</p> <p>The next step for the IJB during 2021/22 is to create the assurance framework, set out in the June Audit and Risk Committee paper, identifying any further assurances or gaps in respect of evidencing best value.</p> <p>This work can be done in tandem with the developing approach of auditing best value in an IJB that is being considered by the Accounts Commission, for the 2022/23 audit cycle onwards (see Action point 2)</p>

# Appendices

# 1. Audit and disclosure adjustments

We are required to report all non trivial misstatements, whether or not the accounts have been adjusted by management. We are pleased to report there were no uncorrected or corrected misstatements to the financial statements arising during our audit [subject to completion of o/s audit work]

Detail	Statement of Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000
Overall impact		

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements [to be updated on completion of testing. No substantive points noted to date and all suggested amendments agreed]

Disclosure	Auditor recommendations	Adjusted?
	[No significant matters to be reported, pending conclusion of our audit work]	

## 2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the one significant recommendation arising from our audit work.

Recommendation	Agreed management response
<p><b>1. Longer term financial planning and future direction of the IJB</b></p> <p>It is recognised in the current climate that the IJB is unable to plan beyond the current financial year. In addition, there are many uncertainties in the 2021/22 financial plan as the NHS and Council continue to respond to Covid-19 and develop recovery plans. The IJB will continue to focus on funding and delivery of the savings plans to achieve the forecast financial position but is recognised this is not without challenge. Going forward, at a suitable point in time, the IJB should refocus on creating a long term financial plan, considering various scenarios over funding and savings delivery. This may be done in the context of the future direction of the IJB as the Feely care review is further considered by Government and stakeholders, which include the IJB, NHS and Council.</p>	<p><b>Management response:</b> An update of the longer term financial plan is in progress and will be reviewed following the draft budget for 22/23 and any further detail which is released through the care consultation process</p> <p><b>Action owner:</b> Chief Finance Officer</p> <p><b>Timescale for implementation:</b> March 2022</p>
<p><b>2. Best Value assurance framework</b></p> <p>Management should progress during 2021/22 the plans set out at the Audit and Risk Committee in respect of developing a best value assurance framework, mapping best value assurances across the IJB itself as well as the partner organisations. This work can be done in tandem with the developing thinking of the Accounts Commission on how to audit and assess the achievement of Best Value within an organisation like the IJB – a commissioning body, who directs partners to deliver, on their behalf, via delegated budgets and direction.</p>	<p><b>Management response:</b> This work will be progressed for 21/22 and updated based on the relevant guidance in place at the time for the 21/22 assurance process.</p> <p><b>Action owner:</b> Chief Finance Officer</p> <p><b>Timescale for implementation:</b> June 2022</p>



## 2. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations and these are reflected below for information.

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### Financial Sustainability – SAM Programme

Work should continue, via the SAM programme, to identify and deliver recurring savings for 2020/21 and beyond. The work of the SAM programme will also support service delivery transformation.

**Initial Management response:** The Partnership continues to work on its Sustainability and Modernisation Plan and this has been established as part of the Covid recovery and remobilisation work. Further work will be progressed through the development of the Financial Plan for 2021/22 Action owner: Chief finance Officer  
Timescale for implementation: June 2021

**Responsible office:** Chief Finance Officer. Due date, June 2021

### Follow up: COMPLETED

The IJB has in place a financial plan for 21/22. The SAM programme, whilst impacted by Covid, continues to focus on service transformation and delivery of savings. This has been linked to the recovery and remobilisation work in the NHS. This point has been marked as complete recognising the 2020/21 action plan has a further recommendation, superseding this action.

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### Assurances – Council and NHS to the IJB

The two internal audit teams (Council and NHS), should continue to work together as planned to ensure the IJB Audit and Risk Committee is sighted additional control assurance that is provided to the NHS or Council, relevant to the IJB control environment. This will support the work of the IJB Audit and Risk Committee and the annual governance statement. In addition, to support the IJB assurance over how the IJB ensures it delivers best value, assurance specifically over best value should be formally sought from the Council and NHS. This would support the IJB's best value assessment.

**Initial management response:** Although a joint audit was not completed, audit assurances for 2019/20 have been enhanced with a statement of assurance from the Council Internal Audit Manager which has been considered in the overall assurances available for the IJB. It has been agreed that joint assurance work will be a focus moving forward and will be factored into both the NHS and Council audit plans.

**Responsible office:** Head of Internal Audit. Due date, June 2021

### Follow up: COMPLETED

The Chief Internal Auditor of the IJB continues to work with the Council Chief Internal Auditor. Assurances at year-end have been sought and strengthened to support the Internal Audit Annual report and opinion. Internal Audit during the year was impacted by Covid in terms of plan delivery. A plan has been agreed for 2021/22, to be delivered by the NHS Internal Audit Team. There continues to be consideration of joint planning, and recognition of risks that exist within the Partners which may impact on the IJB and the IJB may seek assurances.

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# 3. Audit fees and independence

## External Audit Fee

Service	Fees £
External Auditor Remuneration	18,850
Pooled costs	1,1790
Contribution to Audit Scotland costs	1,040
Contribution to Performance Audit and Best Value	5,650
<b>2020/21 Fee</b>	<b>27,330</b>

## Fees for other services

Service	Fees £
We confirm that for 2020/21 we did not receive any fees for non-audit services	Nil

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

## Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

# 5. Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance which we set out in the table below.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the IJB's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

