

Aberdeenshire Integration Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Aberdeenshire Integration Joint Board

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Contents

Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	8
Reporting arrangements, timetable, and audit fee	11
Other matters	13

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Aberdeenshire Integration Joint Board (IJB). The main elements of our work include:

- assessing the risk of material misstatement in the IJB's financial statements
- an audit of the IJB's annual accounts and provision of an independent auditor's report
- an audit opinion on other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements.

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to Aberdeenshire IJB through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the IJB promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the audit committee and actively participate in discussions.

Respective responsibilities of the auditor and Aberdeenshire IJB

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Aberdeenshire IJB. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the IJB to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Aberdeenshire IJB responsibilities

8. Aberdeenshire IJB is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the IJB has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Public sector audit appointments are usually for five years but were extended to six years due to Covid-19. Financial year 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a smooth transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#) which sets out the IJB's 2021/22 materiality values.

Exhibit 1 2021/22 Materiality levels for Aberdeenshire IJB

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements.	£5.5m
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£3.6m
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 5% of planning materiality subject to a maximum limit of £250,000.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the IJB, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. Significant risks are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Evaluate external auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian). Assurances will include: <ul style="list-style-type: none"> review and testing of journal entries substantive testing of income and expenditure transactions around the year end to confirm they are accounted for in the correct financial year review of accounting estimates focused testing of accounting accruals and prepayments.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk for Aberdeenshire IJB because it is wholly funded by way of budget allocations from its two partners, Aberdeenshire Council and NHS Grampian, and it then commissions services in line with its Integration

Scheme. This limits the opportunity for management to manipulate the way income is recognised.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have also rebutted the risk of material misstatement caused by fraud because the IJB does not incur expenditure directly and does not operate a bank account. The IJB commissions services from its partner bodies with all IJB expenditure being processed through the financial systems of the partner bodies. Any manipulation of expenditure is therefore deemed to be a risk of the partner bodies rather than the IJB.

17. While we undertake standard audit procedures in respect of the IJB's income and expenditure, our rebuttal of the auditing standard's presumed risk of fraud means that it has not been necessary to incorporate additional specific work into our audit plan in these areas

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The areas of specific audit focus are:

- **Completeness of IJB transactions:** Transactions for the IJB are recorded through the partners financial ledgers. If robust processes are not in place, there is a risk that expenditure and income is miscoded and IJB accounts are misstated. No major issues were identified in previous years but we will keep this matter under review.
- **Payments to primary care contractors:** This is a material and complex account area with payments totalling around £90m each year (The IJB's share of a total of £250m incurred by NHS Grampian). Improvements have been made by NHS National Services Scotland (NSS) in response to the service auditor's qualified audit opinions in previous years. There is ongoing uncertainty however with regard to this year's opinions and whether NHS NSS will be providing additional assurance on Covid-19 funding in respect of services which continued to have an element of protection in 2021/22.

Audit risk assessment process

20. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

22. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

23. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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** – value for money refers to using resources effectively and continually improving services.

Best Value

24. Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review arrangements put in place by the Aberdeenshire IJB to achieve best value and report findings through our Annual Audit Report.

Audit dimension risks

25. We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of management assurance	Planned audit response
<p>1. Financial sustainability/medium term financial planning</p> <p>The IJB continues to operate in an increasingly challenging funding environment and faces a rising demand for services. The picture is currently complicated by the ongoing Covid-19 pandemic. While the IJB held reserves at 31 March 2021, this was largely due to the receipt of late funding from Scottish Government. The pandemic continues to place additional pressure on resources and services.</p> <p>As recommended in our previous Annual Audit Reports, the Medium Term Financial Strategy should be refreshed to ensure it is based on accurate data and up-to-date assumptions.</p>	<ul style="list-style-type: none"> • The Medium Term Financial Strategy (MTFS) is currently being prepared for the period 2022-27 and is linked to the ongoing review of the Strategic Priorities being undertaken by the IJB. • The MTFS will be presented to the IJB in summer 2022 for approval. The refresh of the MTFS will ensure it is based on accurate and up-to-date data taking account of current and future scenarios and linking to the strategic plan to ensure delivery of objectives within the allocated budget resource. 	<ul style="list-style-type: none"> • Discussions with officers • Monitor progress on updating the medium term financial plan • Review of financial reports considered by the IJB.

Description of risk	Sources of management assurance	Planned audit response
<p>Scenario planning should be used to develop options and alternatives for managing demand led pressures and longer term, the links between financial and workforce plans should be strengthened.</p> <p>There is a risk that the IJB will not be able to deliver against its objectives, its strategic plan and against its budget in the longer term.</p>		
<p>2. Performance information</p> <p>With restrictions on the availability of national performance data, the local redeployment of staff and the implementation of a new framework locally to support the strategic plan, less performance information has been reported to the board in recent times.</p> <p>There is a risk that the board is not able to demonstrate progress against its priorities and undertake effective scrutiny.</p>	<ul style="list-style-type: none"> • IJB performance reports are now in a new format and focus on the transformational workstreams within the strategic delivery plan. These are still in their early stages of development but follow each Strategic Planning Group meeting which reports on progress to the IJB, so approx. every 2 months. 	<ul style="list-style-type: none"> • Discussions with officers • Review of board reports.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

26. Audit reporting is the visible output for the annual audit. The Annual Audit Plan, the outputs detailed in [Exhibit 5](#) and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

28. We will provide an independent auditor's report to Aberdeenshire IJB and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the IJB and the Controller of Audit with an annual report on the audit containing judgements and recommendations on significant matters arising from the audit.

29. [Exhibit 5](#) outlines the target dates for our audit outputs. While we aim to issue the independent auditor's report around 30 September 2022, in advance of the national target, we acknowledge this will be challenging due to audit resourcing pressures and ongoing demands caused by Covid-19.

Exhibit 5 2021/22 Audit outputs



Audit Output	Target 'national' date	Local target/Audit Committee Date
Annual Audit Plan	31 March 2022	30 March 2022
Independent Auditor's Report	31 October 2022	12 October 2022
Annual Audit Report	31 October 2022	12 October 2022

Source: Audit Scotland

Timetable

30. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with the Chief Finance Officer. We will continue to work in close partnership with the finance team over the course of the audit with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	1 June 2022 (to be confirmed)
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with the Chief Finance Officer	16 September 2022
Agreement of audited and unsigned annual report and accounts	30 September 2022
Issue of Annual Audit Report to those charged with governance.	5 October 2022
Signed Independent Auditor's Report	12 October 2022

Source: Audit Scotland

Audit fee

31. The agreed audit fee for the 2021/22 audit of Aberdeenshire IJB is £27,960 (2020/21: £27,330). In determining the audit fee, we have taken account of the risk exposure of the Aberdeenshire IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

32. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Other matters

Internal audit

33. International standards on Auditing (UK) 610: *Using the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

34. Internal audit is provided by the Chief Internal Auditor at Aberdeenshire Council. We are the external auditors for both Aberdeenshire Council and NHS Grampian and, consequently, we plan to take assurance from our reviews of internal audit carried out in connection with our audits of the council and the NHS board respectively.

35. Sharing arrangements have been put in place between the internal auditors of the IJB, Aberdeenshire Council and NHS Grampian. Where there is a direct relationship between the internal audit work carried out in the partner bodies and the IJB, the relevant report will be shared with the IJB audit committee.

36. We do not plan to use the work of internal audit in our 2021/22 financial statements work but we will use internal audit activity to inform our wider scope responsibilities and our consideration of the board's annual governance statement.

Independence and objectivity

37. Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration

for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

38. The engagement lead (i.e., appointed auditor) for Aberdeenshire IJB is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Aberdeenshire IJB.

Quality control

39. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

40. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

41. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Aberdeenshire Integration Joint Board

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