

# Dumfries and Galloway Integration Joint Board

## Financial year ending 31 March 2022

External Audit Plan

March 2022



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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 audit planning 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 organisation 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.

# Plan overview

The audit plan sets out our risk based audit approach for Dumfries and Galloway Integration Joint Board (IJB).

This plan outlines our risk assessment and is reported to those charged with governance (Audit and Risk Committee).

## 03 Wider Scope Audit

In accordance with Audit Scotland's Code of Practice, we continue to undertake a wider scope audit on the IJB. For 2021/22 we have identified the following wider scope risks:

- Financial sustainability in 2022/23 and beyond, linked to medium term financial planning. This will include consideration of the substantial reserves the IJB is expected to hold as at 31 March 2022.
- Value for money, including how the IJB demonstrates best value.

## 01 Materiality

We have calculated planning materiality for the IJB using prior year gross expenditure as our benchmark:

- £8.86million planning materiality (2% expenditure)
- Performance materiality of £6.6 million (75% of planning materiality)
- Trivial is set at £250,000

## 04 Other audit matters

We summarise other audit matters for Audit and Risk Committee awareness. This includes:

- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland.
- Notifying Audit Scotland of any identified frauds during the year.
- Consideration of going concern in accordance with Practice Note 10.

## 02 Financial statement audit risks

In accordance with the ISA's (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risk:

- Management override of controls (ISA UK 240)

We have rebutted the risk of fraud and material error in income and expenditure. We do consider, as an other area of focus, risk on completeness and accuracy of expenditure.

## 05 Our Audit Fee

Audit fees were shared by Audit Scotland with the IJB in December 2021. Our fee agreed with Management is £27,960 which is set at the baseline fee.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

# Introduction

## Purpose

This document provides an overview of the planned scope and indicative timing of the external audit of the IJB for those charged with governance.

We are appointed by the Accounts Commission as the external auditors of the IJB for the 6 year period (2016/17 until 2021/22).

## Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice ('the Code') dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the IJB are summarised in Appendix 1 of this external audit plan. We draw your attention to this and the Code.

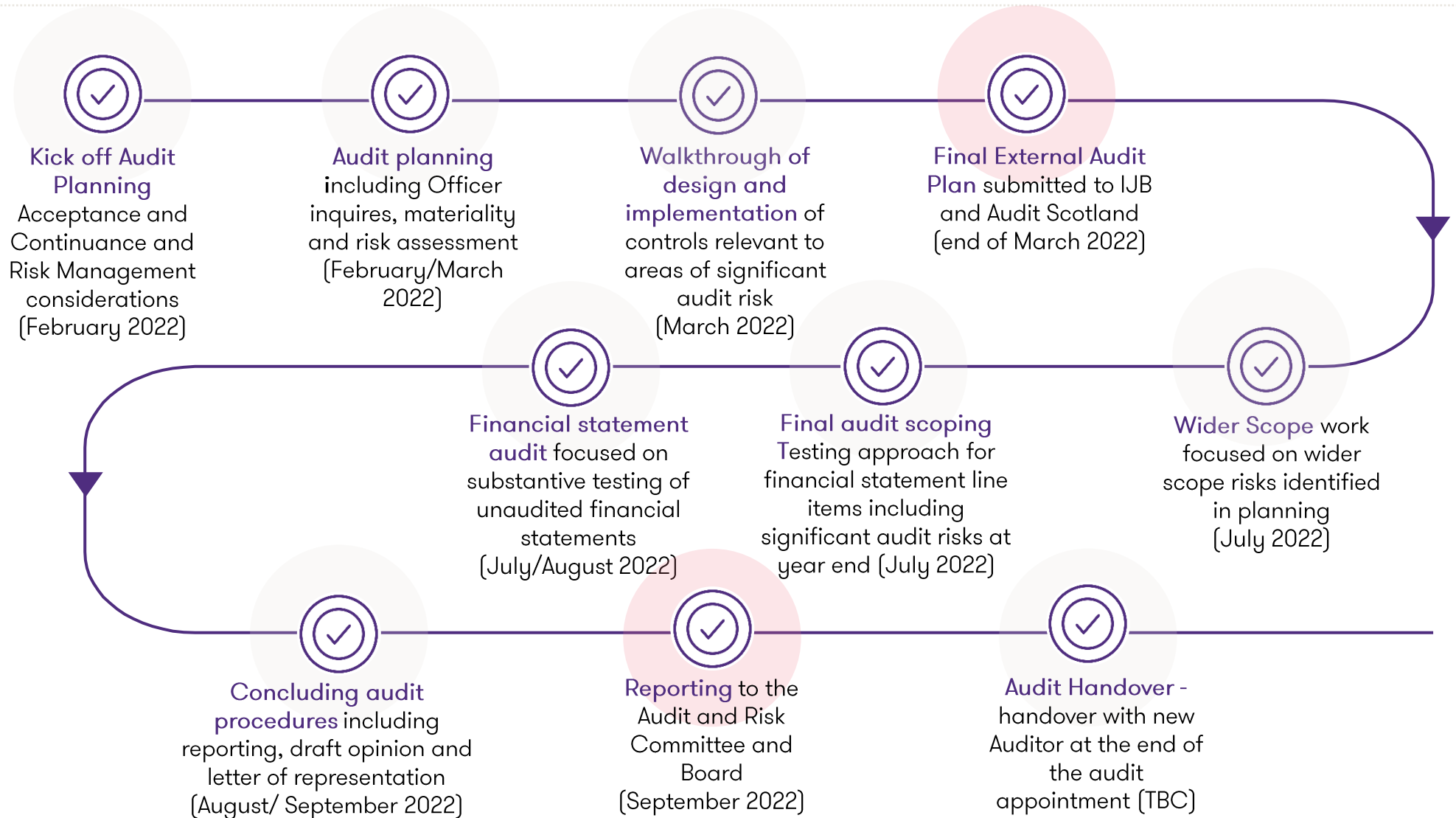
## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the IJB's financial statements that have been prepared by management (Senior Officers) with the oversight of those charged with governance. The audit of the financial statements does not relieve Senior Officers or the Audit and Risk Committee of your responsibilities. It is the responsibility of the IJB to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how the IJB is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the IJB and is risk based.

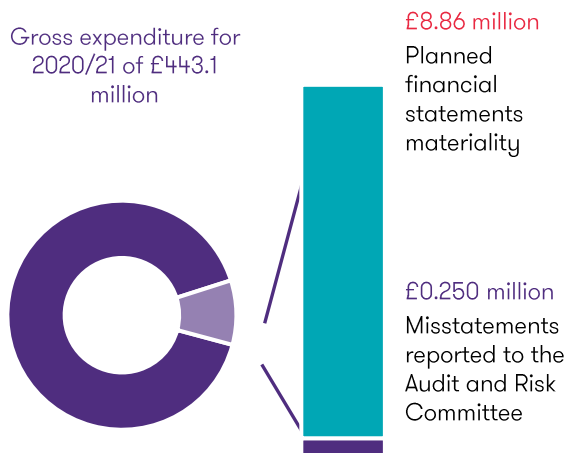


# Outline audit approach for the year



# Materiality assessment

Financial statement materiality is determined based on a proportion of the IJB's gross expenditure. We have provisionally determined **planning materiality** to be £8.86 million which equates to approximately 2% of gross expenditure as per the 2020/21 financial statements.



**Performance materiality** represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. As we finalise planning we use this to determine our testing approach to the financial statements. We have set this at 75% of planning materiality (£6.6 million). The rates used in calculating materiality and performance materiality are based on our understanding of the IJB recognising no corrected or uncorrected misstatements identified during the prior year audit.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £250,000 being the maximum threshold prescribed by Audit Scotland.

**We will update our materiality based upon receipt of the unaudited 2021/22 financial statements in June 2022.**

**During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.**

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# Significant audit risks

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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.

## Management Override of Controls (as required within Auditing Standards – ISA 240)

Our risk focuses on the areas of the financial statements where there is potential for management (Senior Officers) to use their judgement to influence the financial statements alongside the potential to override the IJB's internal controls, related to individual transactions. Our work focuses on journals, management estimates and judgements and transactions outside the normal course of business as set out within the financial statements. We note that the IJB does not post journals throughout the year. Journals are only posted by the IJB as part of the year-end financial process and in the preparation of the unaudited accounts.

We will:

- Evaluate the design effectiveness of management controls over journals focused at year-end and creation of annual report and accounts (post closing entries);
- Analyse the journals listing and determine the criteria for selecting high risk unusual journals;
- Test unusual journals made during the year end for appropriateness and corroboration;
- Gain an understanding of any accounting estimates and critical judgements applied and made by management and consider their reasonableness; and
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

# Significant audit risks (continued)

## Risk of Fraud in income (ISA Requirement) and expenditure (FRC Public Sector guidance)

We have rebutted the risk of fraud or material error in both the IJB income and expenditure.

The IJB receives income from its two partners, Dumfries and Galloway Council and NHS Dumfries and Galloway. The funding (income) is agreed by all parties in advance of the financial year. There is no resultant estimate or judgement in this income stream. Any additional income in year, from either Partner, is agreed with the IJB in advance, in accordance with the IJB Directions in place.

Similarly, the IJB delegates services to the Council and the NHS Board. A budget is agreed by all parties in advance of the financial year. It is up to the Council and the NHS Board to spend the delegated budget, as agreed with the IJB. As a result there is no judgement or estimates in the recognition of expenditure.

On this basis we have rebutted the assumed risk.

## Other risk considerations – Covid-19 grants, including additional in-year Covid funding

We note the IJB may be in receipt of additional grant monies and/or funding earmarked specifically for Covid-19 and specific purposes. We will look to understand the nature of these transactions in year and the impact on the IJB and the IJB financial position.

Specifically we will consider:

- The accounting treatment of grants and whether the requirements of the Accounting Code of Practice has been met.
- The impact on year end of potential accruals, prepayments and provisions and any judgement or estimates made by management at year-end

**We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to those Charged with Governance and the Controller of Audit in concluding our audit in September 2022.**



# Wider scope risks identified in planning

As set out in the Code we are required to consider significant wider scope risks that impact on the IJB. Where we identify risks, similar to financial statement audit risks, we are required to devise a suitable programme of testing to allow us to conclude on the IJB's arrangements. There are four wider scope dimensions we consider: financial management, financial sustainability, governance and transparency and value for money (including Best Value for Local Government bodies). Wider scope risks are a matter of auditor judgement, and what we judge to be significant, considered on a risk basis. From our planning to date (to be concluded) we have identified the following wider scope risks for consideration.

## Financial sustainability

The IJB is expected to achieve a balanced financial outturn for 2021/22 with further fundings being earmarked in reserves for future use. The level of reserves is expected to increase due to additional social care earmarked funds from Scottish Government, some of this coming late in the last quarter of the financial year.

We will focus on in-year financial performance for 2021/22 as well as considering the impact of the IJB's performance on its medium to long term financial sustainability.

We will review the extent to which savings delivered during 2021/22 represent sustainable recurring savings and consider the levels of reserves held by the IJB at year-end, for what purposes and how this is supporting medium term financial planning.

We will seek to understand the IJB's future plans, including their consideration of recovery and re-mobilisation beyond the pandemic and the possibility of less COVID-19 monies being made available to the IJB going forward. We will review the IJB's consideration and assessment of these matters as well as the plans set out by the IJB to ensure future financial stability.

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# Wider scope risks identified in planning

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## Best Value

The IJB has a responsibility, alongside its Partner organisations to demonstrate and evidence achievement of Best Value. We will continue to consider the IJB's assessment of best value using available best value guidance and the principles of best value. This will include considering fairness and equality, as required under the Audit Scotland planning guidance.

We will continue to consider how the IJB monitors performance over delegated services in-year and the relationship of the IJB with its partner organisations.

As the external auditor of Dumfries and Galloway Council and NHS Dumfries and Galloway we will look to use our wider knowledge and experience of both Partners to support the IJB in evidencing best value.

We will understand the longer term strategy of the IJB and the consideration of the national care service consultation and what this may mean longer term for the IJB and the wider public sector, and any plans the IJB needs to establish now.

# Other matters

## Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration Report in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We consider our other duties under the Code and planning guidance (2021/22), as and when required, including:
  - Supporting Audit Scotland’s reporting to the Accounts Commission including supporting performance reports;
  - Providing regular updates to Audit Scotland to share awareness of current issues across our audit clients; and
  - Notify the Controller of the Audit when circumstances indicate a statutory report may be required
  - Notify Audit Scotland of any cases of money laundering or fraud; and
  - Contribute to Audit Scotland technical guidance.

## Internal control environment

Throughout our audit planning we develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries (year-end accounts preparation and close down entries) and other key entity level controls.
- Perform walkthrough procedures on key controls around identified significant risk areas, in particular journals (management override of controls).

We do not place reliance on controls when it comes to our year end financial statement audit work.

The IJB uses the systems within the Council and the NHS to manage its financial records. Council and NHS Management provide 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.

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the significant risks identified in this report.

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# Other matters (continued)

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## Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of Officer's use of the going concern basis of accounting in the preparation of the financial statements.

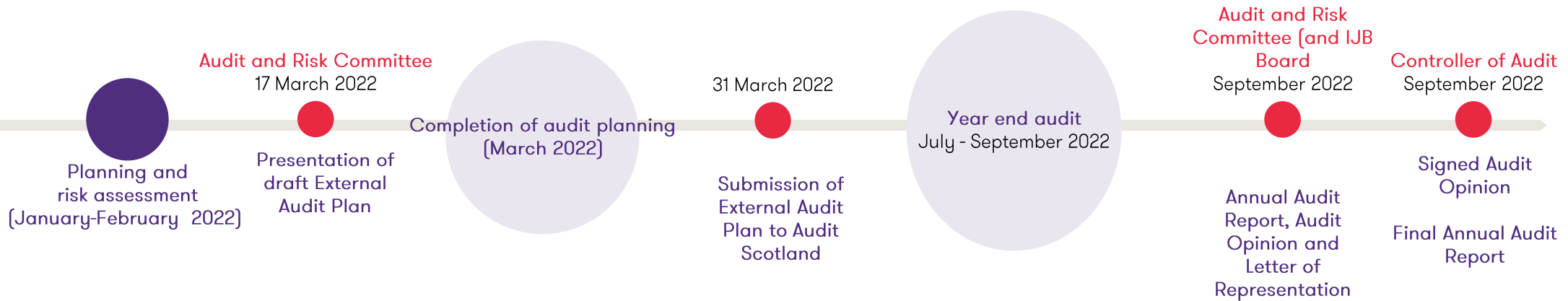
The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on the IJB's arrangements to ensure financial sustainability.

# Audit timeline



## Audited bodies responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where additional resources are needed to complete the audit due to an audited body not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

## Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate officers are available (or as otherwise agreed) over the planned period of the audit; and
- respond promptly and adequately to audit queries.

# Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

Our wider quality arrangements are set out in our annual transparency reports which are available on our website ([www.grantthornton.co.uk](http://www.grantthornton.co.uk)).

## Project management

- Use of Inflo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

## Clear reporting

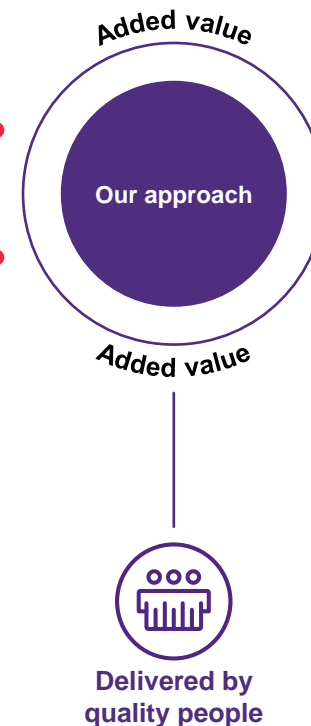
- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Audit and Risk Committee to present our findings and support wider dialogue

## Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19 restrictions
- Audit partner takes ultimate decision on technical matters, consulting with our technical experts

## Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Wider scope conclusions to support you in considering key risks and the improvement actions to take



# Audit Scotland deliverables

Requirement	How we will report our findings
<p><b>Annual Accounts</b> Perform an audit of the annual accounts and express an audit opinion.</p>	<ul style="list-style-type: none"> <li>• External audit plan</li> <li>• External auditor’s opinion on the financial statements</li> <li>• Annual external audit report detailing findings from our audit work on the financial statements.</li> </ul>
<p><b>Wider scope audit dimensions including best value</b> Conclude and report on our assessment of the wider scope audit dimensions. This includes concluding on best value.</p>	<ul style="list-style-type: none"> <li>• Annual external audit report</li> </ul>
<p><b>Performance, impact and overview reports</b> Contribute to performance audits (including submitting a LG data return which includes requested IJB Information)</p>	<ul style="list-style-type: none"> <li>• Submission of data sets to Audit Scotland of key financial and non-financial data of the IJB. Expected to be issued by Audit Scotland in May/June 2022.</li> </ul>
<p><b>Audit Scotland area of focus – risk of fraud and corruption in the procurement function</b> Guidance on planning 2019/20 audits advised auditors to assess the risk of fraud and corruption in the procurement function. Where a significant risk was identified auditors were advised to reflect that in their Annual Audit Plans for either 2019/20 or 2020/21. In recognition of the new risk landscape, where appropriate auditors may defer consideration of this risk until 2021/22.</p>	<ul style="list-style-type: none"> <li>• Our audit work will consider the arrangements for the prevention and detection of fraud and corruption. Specifically, we will consider the extent to which the IJB has a procuring remit, or this responsibility rests with the IJB Partners. This work has been deferred until 2021/22 and our conclusions will be reported in our 2021/22 Annual External Audit Report.</li> </ul>

# Audit Scotland deliverables (continued)

Requirement	How we will report our findings
<b>Correspondence queries</b> Carry out preliminary enquiries into any correspondence relevant to the IJB that is referred to Audit Scotland.	<ul style="list-style-type: none"><li>• Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland</li></ul>
<b>Money laundering and fraud</b> Provide information on cases of money laundering or fraud. This includes quarterly fraud reporting (over £5,000) to Audit Scotland.	<ul style="list-style-type: none"><li>• Reporting quarterly to Audit Scotland, nil returns not required.</li></ul>
<b>Technical Guidance</b> Contribute to Technical Guidance Notes	<ul style="list-style-type: none"><li>• Providing responses to Audit Scotland consultations on draft Technical Guidance Notes for Auditors</li></ul>



# Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This includes the revised ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

Audit fees were shared by Audit Scotland with the IJB in December 2021. Our audit fee is set at the baseline audit fee. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

## Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified. We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

## Audit fees for 2021/22

Service	Fees £
External Auditor Remuneration	19,250
Pooled Costs	2,010
Contribution to Audit Scotland costs	5,670
Contribution to Performance Audit and Best Value	1,030
<b>2021/22 Fee</b>	<b>27,960</b>

## Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

## Fee assumptions

In setting the fee for 2021/22 we have assumed that the IJB will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

# Independence

## Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Standard (Revised 2019) 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 confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.

**We confirm that we are independent of Dumfries and Galloway Integration Joint Board.**



# Appendices

# Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

## Dumfries and Galloway Integration Joint Board

Responsibilities include:

- Preparing financial statements that give a true and fair view;
- Maintaining accounting records;
- Establishing and maintaining systems of internal control;
- Effective internal controls including controls to achieve objectives and secure value for money;
- Establish arrangements for proper conduct of affairs including legality of transactions;
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption; and
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance.

## External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards;
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions;
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance;
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues;
- Notify Audit Scotland of any known or suspected frauds greater than £5,000;
- Contribute to Audit Scotland technical guidance; and
- Contribute to relevant performance studies (as set out in the planning guidance for the year).



# Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Audit and Risk Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to Senior Officers and/or the Audit and Risk Committee.

Our communication plan	Audit Plan	Annual Report (considered our ISA 260 Report)
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.		•

# Fraud responsibilities

The term fraud refers to intentional acts of one or more individuals amongst management (Senior Officers), those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the IJB.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- leading a discussion with those charged with governance on their view of fraud. Typically we do this when presenting our audit plan and in the form of management (Senior Officers) and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud.
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain suitable assurances the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from Senior Officers regarding their assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year.

# Fraud responsibilities (continued)

The primary responsibility for the prevention and detection of fraud rests with management (Senior Officers) and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the IJB's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the IJB to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at the Dumfries and Galloway Council Group we will report to the Auditor General as required by Audit Scotland.

# Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. The first year this impacted on the audit of the IJB was the 2020/21 financial year.

## Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over Senior Officers' financial reporting process relevant to accounting estimates;
- How Senior Officers identify the need for and apply specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How Senior Officers review the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee Senior Officers' process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how Senior Officers made the accounting estimates?

## Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting again this year further information from Senior Officers and those charged with governance during our audit for the year ended 31 March 2022. Based on our knowledge of the IJB, in particular from the prior year audit, we have identified limited/no material accounting estimates. We will evaluate this at year end with the potential to considering year-end accruals.

## IJB's Information Systems

In respect of the IJB's information systems we are required to consider how Senior Officers identify the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how Senior Officers select, or design, the methods, assumptions and data to be used and apply the methods used in the valuations. If Senior Officers have changed the method for making an accounting estimate we will need to fully understand their rationale for this change.

Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.



# Future Auditing developments (2022/23)

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) ‘Identifying and Assessing the Risks of Material Misstatement’ - This will impact audits of financial statement for periods commencing on or after 15 December 2021.
- ISA (UK) 220 (Revised July 2021) ‘Quality Management for an Audit of Financial Statements’ - This will impact audits of financial statement for periods commencing on or after 15 December 2022.
- ISA (UK) 240 (Revised May 2021) ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements. This will impact audits of financial statements for periods commencing on or after 15 December 2021.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	<ul style="list-style-type: none"> <li>• The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of:               <ul style="list-style-type: none"> <li>• the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>• the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>• the controls for which design and implementation needs to be assessed and how that impacts sampling</li> <li>• the considerations for using automated tools and techniques.</li> </ul> </li> </ul>
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> <li>• Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.</li> </ul>
Professional scepticism	<ul style="list-style-type: none"> <li>• The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to:               <ul style="list-style-type: none"> <li>• increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>• an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>• increased guidance on management and auditor bias</li> <li>• additional focus on the authenticity of information used as audit evidence</li> <li>• a focus on response to inquiries that appear implausible</li> </ul> </li> </ul>

Area of change	Impact of changes
Definition of engagement team	<ul style="list-style-type: none"> <li>• The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor.</li> <li>• Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	<ul style="list-style-type: none"> <li>• The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>• clarification of the requirements relating to understanding fraud risk factors</li> <li>• additional communications with management or those charged with governance</li> </ul> </li> </ul>
Documentation	<ul style="list-style-type: none"> <li>• The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.</li> </ul>

