

East Lothian Integration Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for East Lothian Integration Joint Board

15 March 2022

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Introduction

Summary of planned audit work

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

- assessing the risk of material misstatement in the Integration Joint Board's financial statements
- an audit of the annual accounts and provision of an Independent Auditor's Report
- audit opinions 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 disease (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 the 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 and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and the IJB

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

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 (LG bodies) 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 report and accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

The IJB's responsibilities

8. The 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 that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed 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](#). The materiality values for the IJB are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for East Lothian Integration Joint Board

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 2% of net expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£3.7 million
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 75% of planning materiality.	£2.8 million
Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£100,000

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 management override of controls as a significant risk of material misstatement to the financial statements. Significant risks are those 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 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 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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Service auditor assurances will be obtained from the external auditors of East Lothian Council and NHS Lothian in line with the 2021/22 Integration Joint Boards Protocol for Auditor Assurances issued by Audit Scotland. • Agreement of contributions received from partner bodies to be included in East Lothian IJB's Comprehensive Income and Expenditure Statement to letters of assurance provided by East Lothian Council and NHS Lothian.

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 statement, 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 because the IJB is wholly funded from by way

of budget allocations from its partner bodies namely East Lothian Council and NHS Lothian. This limits the opportunity for manipulation.

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 rebutted this risk for the IJB because it does not directly incur expenditure. The IJB commissions services from its partner bodies with all IJB expenditure processed through the financial systems of the partner bodies. Therefore, the manipulation of expenditure is a risk for the partner bodies rather than the IJB.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Audit risk assessment process

18. 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

19. 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

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

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

21. 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.

Audit dimension risks

22. 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 assurance	Planned audit response
<p>Financial sustainability – medium term financial planning.</p> <p>The Integration Joint Board continues to operate in an increasingly challenging environment, where core national funding to partner bodies is reducing, relative to rising demand for services. The picture is further complicated by the ongoing Covid-19 pandemic which is adding to the pressure on resources and services. As highlighted in our 2020/21 Annual Audit Report it is important that medium term budgets are developed to assess the impact of the Covid-19 pandemic on the finances of the IJB. In the absence of such budgets there is a risk that the IJB will not be able to deliver against its objectives, its strategic plan</p>	<ul style="list-style-type: none"> • Board development sessions held on the financial pressures and risks facing East Lothian IJB. • Reports presented to the IJB on development of the medium-term budget strategy. 	<ul style="list-style-type: none"> • Review of papers presented to the IJB Board on medium term financial planning. • Monitor progress in developing medium term financial plans.

Description of risk	Sources of assurance	Planned audit response
and against its budget in the longer term.		

Source: Audit Scotland

Best value

23. Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review arrangements put in place by the East Lothian IJB to achieve best value and report findings through our annual audit report.

24. Additionally, we will follow-up on our recommendation from last year about ensuring that the annual performance report is submitted to the Board in a timely fashion.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

26. 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.

27. We will provide an independent auditor's report to Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Integration Joint Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. Exhibit 5 outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 13 September 2022 although the statutory deadline for signing the accounts is 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19 pandemic.

Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit & Governance Committee Date
Annual Audit Plan	15 March 2022	15 March 2022
Independent Auditor's Report	13 September 2022	13 September 2022
Annual Audit Report	13 September 2022	13 September 2022

Source: Audit Scotland

Timetable

29. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

30. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining the quality of our work in line with that set out in auditing standards.

31. We will continue to work in close partnership with management 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.

32. Audit Scotland requires auditors to prioritise the wellbeing of audit staff and the delivery of high-quality audits over meeting deadlines.

Exhibit 6 Proposed annual report and accounts timetable

Key stage	Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	By 30 June 2022
Latest date for final clearance meeting with the Chief Finance Officer	1 September 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	5 September 2022
Agreement of audited and unsigned annual report and accounts	5 September 2022
Issue of Annual Audit Report to those charged with governance	13 September 2022
Proposed Independent Auditor's Report	13 September 2022
Signed Independent Auditor's Report	15 September 2022

Source: Audit Scotland

Audit fee

33. The agreed audit fee for the 2021/22 audit of the East Lothian Integration Joint Board is £27,960 (2020/21: £27,330). This represents an increase of 2.3%

which is below current levels of inflation and is based on what is required to cover our costs. In determining the audit fee, we have taken account of the risk exposure of the IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

34. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and 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 out with our planned audit activity.

Other matters

Internal audit

35. International standards on Auditing (UK) 610: Considering 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; and
- 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.

36. Internal audit is provided by East Lothian Council's internal auditors and is overseen by their Internal Audit Manager who is also the Chief Internal Auditor for the IJB. Also, the NHS Lothian Internal Audit team carry out one piece of work for the IJB each year which is subject to review by the Chief Internal Auditor.

37. We do not plan to place formal reliance on the work of internal audit to reduce our financial statements audit testing. However, we plan to consider internal audit's assurance work to be carried out in support of the Annual Governance Statement that will be included in the 2021/22 Annual Accounts.

Independence and objectivity

38. Auditors appointed by the Auditor General for Scotland or 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.

39. The engagement lead (i.e. appointed auditor) for the East Lothian Integration Joint Board 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 the IJB.

Quality control

40. 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.

41. 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 Auditor General for Scotland. 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.

42. 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.

43. International standards on Auditing (UK) 610: *Considering the work of*

East Lothian Integration Joint Board

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