

# Western Isles Integration Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Western Isles Integration Joint Board

March 2022

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# Introduction

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## Summary of planned audit work

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

- an audit of the 2021/22 annual accounts, and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual report and accounts including the Management Commentary, the 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
- review the IJB's arrangements for preparing and publishing statutory performance information.

## 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 will attend meetings of the Western Isles IJB Audit Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Western Isles Integration Joint Board

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 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 IJB to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

### Western Isles Integration Joint Board 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 and regularity 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.** The materiality values for the IJB are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for Western Isles Integration Joint Board

| Materiality  | Amount       |
|--|--------------|
| <b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.   | £0.8 million |
| <b>Performance materiality</b> – 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. | £0.6 million |
| <b>Reporting threshold (clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality and rounded to a memorable metric.  | £25,000      |

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 risks of material misstatement to the financial statements. These 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 assurance   | Planned audit response   |
|---|--|--|
| <p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></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"> <li>• Agreement of balances and transactions to Comhairle Nan Eilean Siar and NHS Western Isles financial reports / ledger / correspondence.</li> <li>• Auditor assurances will be obtained from the auditors of Comhairle Nan Eilean Siar and NHS Western Isles. These may be affected by audit timetables, which are yet to be agreed with the partners.</li> <li>• Review of year-end adjustments.</li> <li>• Review of financial monitoring reports during the year.</li> </ul> |

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 income may be misstated resulting in a material misstatement in the financial statements. The IJB is wholly funded by Comhairle Nan Eilean Siar and NHS Western Isles. We assess that the risk of material misstatement arising from fraud over income is limited. This limitation is to such an extent that we have excluded the risk of fraud over income from our significant audit risks.

**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 the risk of material misstatement caused by fraud in expenditure in 2021/22 as we do not consider this to be a significant risk for the IJB. This is on the basis that all transactions are processed by the partner bodies rather than the IJB directly and that all expenditure is undertaken by the partners who are public sector bodies.

**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.

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# Audit dimensions and Best Value

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## 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](#).

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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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.

## Best Value

**22.** Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will consider and report, where necessary, on these arrangements.

## Audit dimension risks

**23.** We identified two new audit dimension risks for the IJB in 2021/22. Progress on the audit dimension risks identified in the prior year will also be followed-up with management during the course of the 2021/22 audit.

## Exhibit 4

### 2021/22 Significant wider dimension risks

| Significant wider dimension risks  | Sources of assurance   | Planned audit response  |
|--|--|---|
| <p><b>1. Financial impact of operating Goathill</b></p> <p>Since 2017, the Comhairle identified a revenue funding shortfall in the new Goathill complex (486k), in its business case. At Dec 2021, this shortfall had grown to £1.179m. A reduced service has been introduced and still has a £526k deficit. The revenue costs of a facility were not considered fully and a debate between the Comhairle and the health board in terms of</p> | <p>There is still an overall financial gap for the IJB in 2023/24 onwards which includes Goathill. The budget report that went to the IJB 31 March 2022 was clear that there is a lot of work to make the overall budget sustainable, not just Goathill. The budgeted position for 22/23 is a breakeven position. However, the biggest risk is the inability to recruit into both the Goathill complex and</p> | <ul style="list-style-type: none"> <li>• We are reviewing the Goathill project as part of our Best Value Assurance Review in 2022 and will report to the Comhairle on the issue.</li> <li>• As the project is also key to the IJB we will also report our findings as part of our Annual Audit Report to the IJB.</li> <li>• We will consider the financial impact of any shortfall in Goathill running costs on the IJB and report this in our Annual Audit Report.</li> </ul> |

| Significant wider dimension risks  | Sources of assurance   | Planned audit response  |
|--|--|---|
| <p>the responsibility of the project is ongoing.</p> <p><b>Risk: An underfunded new service will produce an overall IJB deficit and deplete existing IJB reserves.</b></p>   | <p>other Social Care and some NHS services.</p>  |   |
| <p><b>2. Workforce issues and sustainability of services</b></p> <p>There are significant vacancies and sickness absence in homecare staff, and we understand that the IJB and the Comhairle have been unable to meet service demand due to staffing issues.</p> <p><b>Risk: Some services are unsustainable due to workforce shortages.</b></p> | <p>Officers will continue to monitor unmet need and non assessment of clients. Officers will continue to present workforce statistics at IJB meetings. There is further funding available to improve capacity within homecare and it is hoped by creating a hybrid workforce across Health and Social that it may encourage more recruitment into Homecare, however this is at a time when staffing growth is needed for the Goathill complex.</p> | <ul style="list-style-type: none"> <li>• We will establish the current rates of vacancy and sickness absence.</li> <li>• We will identify whether care assessment plans and delivery are significantly different and the extent to which service users are awaiting care provision.</li> <li>• We will consider these areas in the context of the IJB total workforce.</li> </ul> |

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**24.** 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](http://www.audit-scotland.gov.uk).

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

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

**27.** [Exhibit 5](#) outlines the target dates for our audit outputs. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5 2021/22 Audit outputs

| Audit Output                 | Target date      | Audit Committee Date |
|------------------------------|------------------|----------------------|
| Annual Audit Plan            | 31 March 2022    | 13 April 2022        |
| Independent Auditor's Report | 30 November 2022 | 1 December 2022      |
| Annual Audit Report          | 30 November 2022 | 1 December 2022      |

Source: Audit Scotland

## Timetable



**28.** 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.

**29.** 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 high standards of quality.

**30.** 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.

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### Exhibit 6 Proposed annual report and accounts timetable

|  Key stage                            |  Provisional Date |
|--|--|
| Consideration of the unaudited annual report and accounts by those charged with governance                               | 30 June 2022   |
| Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package. | 30 June 2022   |
| Latest date for final clearance meeting with the Chief Financial Officer   | 30 November 2022   |
| Issue of Letter of Representation and proposed Independent Auditor's Report  | 30 November 2022   |
| Agreement of audited and unsigned annual report and accounts   | 1 December 2022  |
| Issue of Annual Audit Report to those charged with governance.   | 1 December 2022  |
| Signed Independent Auditor's Report  | 1 December 2022  |

Source: Audit Scotland

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## Audit fee

**31.** The proposed audit fee for the 2021/22 audit of Western Isles Integration Joint Board is £27,960 (2020/21: £27,330). 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.

**32.** 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.

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# Other matters

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## Internal audit

**33.** 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.

**34.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We may consider aspects of internal audit's work in respect of our wider audit dimension responsibilities.

## Independence and objectivity

**35.** 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.

**36.** The engagement lead (i.e., appointed auditor) for the IJB is Brian Howarth, 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

**37.** 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.

**38.** 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.

**39.** 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.

# Western Isles Intergration Joint Board

## Annual Audit Plan 2021/22

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