

# Edinburgh Integration Joint Board

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Edinburgh Integration Joint Board

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2022/23 external audit of the Edinburgh Integration Joint Board (the IJB). The main elements of our work include:

- an audit of the annual accounts, leading to an independent audit opinion
- 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 wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Audit Appointment

**2.** We are pleased to be appointed as the external auditor of the IJB for the period 2022/23 to 2026/27 inclusive.

**3.** In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

**4.** The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

**5.** We aim to add value to the IJB through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Assurance Committee and by identifying and encouraging good practice and making recommendations for improvement. In so doing, we will help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and the IJB

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the IJB. Key responsibilities are summarised below.

### Auditor responsibilities

7. 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.

8. 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 wider scope arrangements in place at the IJB. In doing this, we aim to support improvement and accountability.

### Edinburgh Integration Joint Board's responsibilities

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

10. 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.

# Financial statements audit planning

## Introduction

**11.** The annual accounts are an essential part of demonstrating the IJB's stewardship of resources and its performance in the use of those resources.

**12.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

**14.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the IJB are set out below.

## Exhibit 1

### 2022/23 Materiality levels for Edinburgh Integration Joint Board

Materiality	Amount
<p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the IJB's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£17.6 million
<p><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 could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.</p>	£12.3 million

**Reporting threshold** – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount.

£250,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** Our risk assessment draws on our cumulative knowledge of the IJB, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit and a review of supporting information.

**16.** 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.

**17.** 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

#### 2022/23 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 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</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>Assurances will be obtained from the auditors of NHS Lothian and City of Edinburgh Council in line with the Protocol for Auditor Assurance 2022/23 – Integration Joint Boards issued by Audit Scotland.</li> <li>We will evaluate any significant unusual transactions outside the normal course of business, including the return of unused Covid-19 balances to the Scottish Government.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
otherwise appear to be operating effectively.		<ul style="list-style-type: none"> <li>We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>
<p><b>2. Charges for services provided by NHS Lothian</b></p> <p>The charge recognised in Edinburgh IJB's accounts for some services provided by NHS Lothian is determined by a cost allocation model, with charges shared across its four integration partners. We consider the cost allocation model to be a significant accounting estimate and represents a risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>The allocation of costs between the four integration boards is underpinned by a financial model maintained by NHS Lothian.</li> <li>The model is reviewed annually and supported by the four chief finance officers.</li> </ul>	<ul style="list-style-type: none"> <li>We will review the basis for costs allocated to Edinburgh IJB and ensure this is reasonable and consistent with the underlying data.</li> <li>Assurances will be obtained from the auditors of NHS Lothian on the completeness and accuracy of the model.</li> </ul>

Source: Audit Scotland

**18.** 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. As the IJB is wholly funded by budget allocations from its partner bodies, NHS Lothian and City of Edinburgh Council, we have assessed there is limited scope for manipulation and that the risk of material misstatement arising from fraud over income is limited. We have, therefore, rebutted this risk in accordance with ISA 240.

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 because the IJB does not directly incur expenditure. The IJB commissions services from its partner bodies with expenditure processed through the financial systems of the partner bodies.

**19.** As a result, we have not incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**20.** As part of our assessment of audit risks, we have identified other areas where we consider there are 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.

**21.** The areas of specific audit focus are:

- **Reserves:** The IJB holds an earmarked reserve balance for Covid-19 funding carried forward from 2021/22, totalling £44.937 million. The Scottish Government has outlined arrangements for unused Covid-19 reserve balances to be returned to the Scottish Government. The accounting treatment has not yet been clarified. We will review the accounting entries and disclosures in the annual accounts to consider if they are appropriate and in line with government guidance.



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# Wider Scope and Best Value

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## Introduction

**22.** The sets out the four areas 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 wider scope areas in audited bodies.

**23.** In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **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).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the IJB. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the IJB demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

## Wider scope risks

**24.** We have identified wider scope audit risks in the areas set out in [Exhibit 3](#). 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 3****2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial management and sustainability</b></p> <p>The IJB approved an unbalanced budget for 2022/23, identifying a savings requirement of £29.3m to be achieved. The most recent forecast outturn for the financial year, at December 2022, is an overspend of £2.7 million.</p> <p>The IJB continues to face significant future financial pressures with a funding gap of £79.3m estimated by 2025/26. The development of a medium-term financial strategy is in progress but not yet complete.</p> <p>Reduced costs from staff vacancies are helping to offset the financial challenges but, in common with other health and social care bodies, the joint board is facing significant workforce pressures, with a high number of unfilled vacancies in both health and social care. This has significant implications for financial and workforce planning, performance and service sustainability.</p>	<ul style="list-style-type: none"> <li>• A regular finance update is presented to the board. This is supported by a separate report on progress with the joint board's savings and recovery programme which is reviewed by the Performance and Delivery Committee.</li> <li>• The IJB's workforce strategy was approved by the Board in February 2022 and a workforce plan was submitted to the Scottish Government in March 2022.</li> <li>• An Innovation and Sustainability Programme has been established with the purpose of delivering strategic change initiatives which aim to achieve longer-term sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>• We will monitor the forecast outturn as the year progresses.</li> <li>• We will review the IJB's processes for monitoring progress with the Innovation and Sustainability Programme and delivery of the workforce strategy.</li> <li>• We will follow up the ongoing recommendation, raised by the previous auditor, relating to the development of a medium-term financial strategy.</li> </ul>

Source: Audit Scotland

**25.** Our planned work on our wider scope responsibilities is risk based and proportionate and will include following up the recommendations raised by the previous auditors, Azets. In addition to local risks, we consider challenges which

are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change.

## Climate Change

**26.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**27.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the IJB's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

## Best Value

**28.** Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how the IJB demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**29.** All Annual Audit Plans and audit reports, as detailed in [Exhibit 4](#), 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).

**30.** 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.

**31.** 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.

**32.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

## Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	13 March 2023	20 March 2023
Independent Auditor's Report	6 September 2023	13 September 2023
Annual Audit Report	6 September 2023	13 September 2023

Source: Audit Scotland

## Timetable

**33.** 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 5](#) that has been discussed with management.



**34.** 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. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**35.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

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## Exhibit 5

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	8 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	12 June 2023
Latest date for final clearance meeting with the Chief Finance Officer	10 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	30 August 2023
Agreement of audited and unsigned annual report and accounts	6 September 2023
Issue of Annual Audit Report to those charged with governance.	6 September 2023
Signed Independent Auditor's Report	27 September 2023

Source: Audit Scotland

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## Audit fee

**36.** In determining the audit fee, we have taken account of the risk exposure of the IJB and the planned management assurances in place. The proposed audit fee for 2022/23 is £31,470 as set out in [Exhibit 6](#).

**37.** Our fees have increased in 2022/23 to reflect the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**Exhibit 6****Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	34,020
Pooled costs	0
Contribution to Audit Scotland costs	1,290
Contribution to Performance and Best Value	6,470
Sectoral Cap Adjustment	(10,310)
2022/23 Audit fee	31,470

Source: Audit Scotland

**38.** In setting the fee for 2022/23 we have assumed that the IJB has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**39.** It is the responsibility of the IJB to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**40.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**41.** 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.

**42.** 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**43.** The appointed auditor for the IJB is Michael Oliphant, 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.

## Audit Quality

**44.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**45.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**46.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**47.** Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**48.** 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 appointed auditor.

**49.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.



# Edinburgh Integration Joint Board

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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