



Fife Integration Joint Board

External Audit Annual Plan 2022/23

March 2023



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Introduction

Azets have been appointed by Audit Scotland as the external auditor to Fife Integration Joint Board (“the IJB”) for the period 2022/23 to 2026/27.

This document summarises the work plan for our 2022/23 external audit of the IJB.

The core elements of our work include:

- an audit of the 2022/23 annual accounts;
- consideration of the wider scope areas of public audit work;
- consideration of the IJB’s arrangements to secure Best Value;
- any other work requested by Audit Scotland.

We expect that our audit will have a similar underlying approach to that of your previous external auditor, Audit Scotland, although there are some changes to the Code of Audit Practice and auditing standards that come into effect for the first time in 2022/23, which are reflected in this document.

Adding value

All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We will add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.

Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland’s website www.audit-scotland.gov.uk.

Audit scope and general approach

Responsibilities of the auditor and the IJB

The [Code of Audit Practice](#) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Auditor responsibilities are derived from statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, the Code of Audit Practice and guidance from Audit Scotland.

The IJB has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The IJB is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

[Appendix 1](#) provides further detail of both our responsibilities and those of the IJB.

Risk-based audit approach

We follow a risk-based approach to the audit that reflects our overall assessment of the relevant risks that apply to the IJB. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



Planning is a continuous process and our audit plans are updated during the course of our audit to take account of developments as they arise.

Communication with those charged with governance

Auditing standards require us to make certain communications throughout the audit to those charged with governance. These communications will be through the Audit and Assurance Committee. The annual accounts and our annual report will also be reported to the Board.

Professional standards and guidance

We perform our audit of the financial statements in accordance with International Standards on Auditing UK (ISAs (UK)), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

Partnership working

We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Our new Audit Scotland appointments include Fife Council and NHS Fife. Where practicable and appropriate we will share knowledge to generate efficiencies in the delivery of our audits.

Audit Scotland

Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps identify common priorities and risks, treat issues consistently across the sector, and improve audit quality and efficiency. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

Audit Scotland undertakes national performance audits on issues affecting the public sector. We may review the IJB's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the IJB uses the national performance reports as a means to help improve performance at the local level.

During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal Audit

As part of our audit, we consider the scope and nature of internal audit work and look to minimise duplication of effort, to ensure the total audit resource to the IJB is used as efficiently and effectively as possible.

Shared systems and functions

The IJB relies on financial systems operating in Fife Council and NHS Fife to produce its financial reports. We will seek assurances from the Azets audit teams responsible for the external audits of Fife Council and NHS Fife in relation to the arrangements in place at those organisations for the provision of financial information to the IJB.

Delivering the audit – post pandemic

Hybrid audit approach

We intend to adopt a hybrid approach to our audit which combines on-site visits with remote working; learning from the better practices developed during the pandemic.

All of our people have the equipment, technology and systems to allow them to work remotely or on-site, including secure access to all necessary data and information.

All of our staff are fully contactable by email, phone call and video-conferencing.

Meetings can be held over Skype, Microsoft Teams or by telephone.

We employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Secure sharing of information

We use a cloud-based file sharing service that enables users to easily and securely exchange documents and provides a single repository for audit evidence.

Regular contact

During the 'fieldwork' phases of our audit, we will arrange regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Signing annual accounts

Audit Scotland recommends the electronic signing of annual accounts and uses a system called DocuSign.

Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location and there is no longer a need for duplicate copies to be signed.

Approach to audit of the annual accounts

Our objective when performing an audit of the annual accounts is to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement and to issue an auditor's report that includes our auditor's opinion.

As part of our general approach, we will:

- perform risk assessment procedures including updating our understanding of the entity and its environment, the financial reporting framework and system of internal control;
- review the design and implementation of key internal controls;
- identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement level and the assertion level for classes of transaction, account balances or disclosures;
- design and perform audit procedures responsive to those risks, to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion; and
- exercise professional judgment and maintain professional scepticism throughout the audit recognising that circumstances may exist that cause the financial statements to be materially misstated.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be

expected to influence the economic decisions of users taken on the basis of the financial statements. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. We include an explanation in the auditor's report of the extent to which the audit was capable of detecting irregularities, including fraud and respective responsibilities for prevention and detection of fraud.

Key audit developments in 2022/23

Revised auditing standards¹, which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The in-depth nature of these additional procedures, as well as updated tools and techniques that may come into scope, will also offer additional opportunity to provide insights and constructive feedback on the way the IJB manages risks. [Appendix 2](#) provides further details on the implications of these new requirements.

Materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements. In general, misstatements, including omissions, are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgments about materiality are made in the light of surrounding circumstances and are affected by our perception of the financial information needs of users of the financial statements, and by the size or nature of a misstatement, or a combination of both.

The basis for our assessment of materiality is set out in [Appendix 3](#).

Accounting systems and internal controls

The purpose of an audit is to express an opinion on the financial statements. As part of our work, we consider certain internal controls relevant to the preparation of the

¹ Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement in the financial statements and ISA (UK) 240 on material misstatements caused by fraud came into effect for audits of financial statements with periods commencing on or after 15 December 2021.

financial statements such that we are able to design appropriate audit procedures. However, this work is not for the purpose of expressing an opinion on the effectiveness of internal controls.

We will report to the Audit and Assurance Committee, significant deficiencies in internal controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

Specialised skill or knowledge required to complete the audit procedures

Our intended audit approach is to consult internally with our Technology Risk team for them to support the audit team in assessing the information technology general controls (ITGC).

Going concern

The concept of going concern applies in the public sector but in a different way to the private sector. In many public sector entities (but not all), the use of going concern basis of accounting is not a significant matter because the applicable financial reporting framework envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For many public sector entities, the financial sustainability of the entity is more likely to be of significant public interest that the application of the going concern basis. Our wider scope audit work considers the financial sustainability of the IJB.

Prevention and detection of fraud or error

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Anti-money laundering

We require the IJB to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Correspondence

People or organisations write to Audit Scotland because they have concerns about an issue within a public body that falls under the remit of the Auditor General or the Accounts Commission. An issue of concern may be something such as a breakdown in financial management or governance arrangements.

The key factor in determining whether Audit Scotland examines an issue is the relevance of the issue to Audit Scotland's role and functions. Audit Scotland and appointed auditors will make this judgement using their professional and technical knowledge.

Wider audit scope work

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability. [Appendix 1](#) provides detail of the wider scope areas of public sector audit work. Our initial risk assessment and scope of work planned for 2022/23 is outlined in the '[Wider Scope](#)' section of this plan.

National risk assessment

Where particular areas of national or sectoral risk have been identified by the Accounts Commission and Auditor General, they will request auditors to consider and report on those risks as they apply at a local level. For 2022/23 the following areas have been identified:

- Climate Change
- Cyber Security

[Appendix 4](#) provides further detail as to the scope of this work.

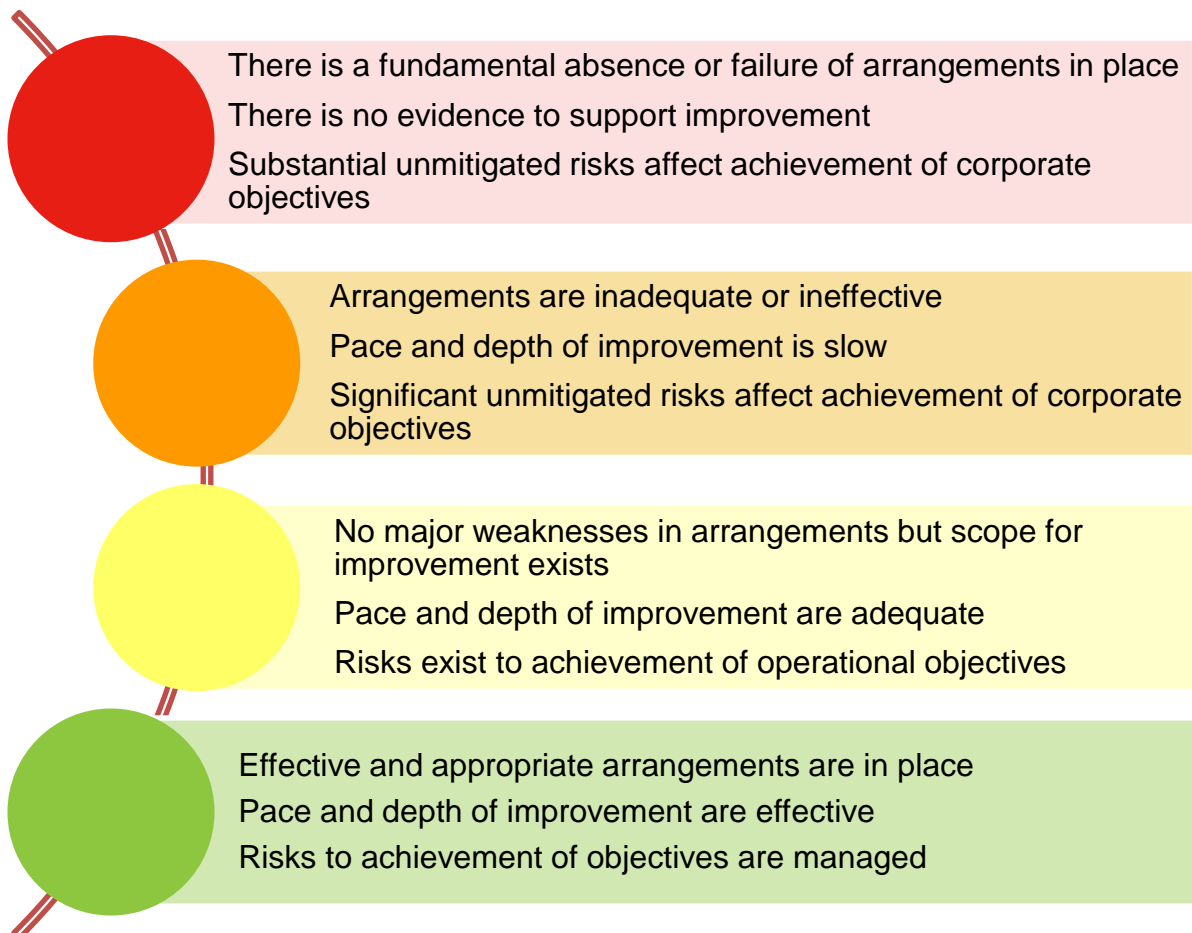
Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the IJB’s best value arrangements will be integrated into our audit approach, including our work on the wider scope audit areas as set out in the [‘Wider Scope’](#) section of this plan. We will review and report on how the IJB demonstrates and reports that it has Best Value arrangements in place to secure continuous improvement.

Reporting our findings

We will provide judgements on the pace and depth of improvement in reporting our findings on wider scope areas. We will use the following grading to provide an overall assessment of the arrangements in place as part of our Annual Audit Report.



Significant and other risks of material misstatement

Significant risks are risks that require special audit consideration and include identified risks of material misstatement that:

- our risk assessment procedures have identified as being close to the upper range of the spectrum of inherent risk due to their nature and a combination of the likelihood and potential magnitude of misstatement; or
- are required to be treated as significant risks due to requirements of ISAs (UK), for example in relation to management override of internal controls.

Significant risks at the financial statement level

The table below summarises the significant risks of material misstatement identified at the financial statement level. These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk.</p> <p>Risk of material misstatement: Very High</p>	<p>Procedures performed to mitigate risks of material misstatement in this area will include:</p> <ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness,

Identified risk of material misstatement	Audit approach
	<p>corroboration and to ensure approval has been undertaken in line with the IJB’s journals policy.</p> <ul style="list-style-type: none"> • Gaining an understanding of the accounting estimates and critical judgements made by management. We will challenge assumptions and consider the reasonableness and indicators of bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies estimate or significant unusual transactions.

Significant risks at the assertion level for classes of transaction, account balances and disclosures

The table below summarises the significant risks of material misstatement at the assertion level for classes of transaction, account balances and disclosures.

Identified risk of material misstatement	Audit approach
<p>Fraud in revenue recognition</p> <p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed risk in ISA 240 (The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements).</p> <p>The presumption is that the IJB could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.</p>	<p>Income recognised in the IJB's accounts are contributions received from the IJB's funding partners.</p> <p>Given the nature of income we have rebutted this risk. We will review our assessment during the fieldwork stage of our audit.</p>
<p>Fraud in expenditure recognition</p> <p>As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of expenditure around the year end.</p>	<p>As the IJB commissions services from the constituent bodies, the IJB does not exercise operational control of the staff and assets to deliver the services itself. The cost of commissioning the services is the expenditure recognised by the IJB rather than the expenditure incurred in delivering the services.</p> <p>Given the nature of expenditure reported in the IJB's annual accounts we have therefore rebutted this risk. We will review our assessment during the fieldwork stage of our audit.</p>

Other identified risks

Other identified risks are those which although are not considered to be significant will require specific consideration during the audit.

Accounting treatment for recovery of COVID-19 reserves

In 2021/22 NHS Fife received additional COVID-19 funding of £95million of which £59million was passed to the IJB. As at 31 March 2022, £35.993million was held as an IJB earmarked reserve.

The Scottish Government has notified health boards and integrated authorities of its intention to recover part of this funding. It has been confirmed that £21million of the COVID-19 earmarked reserves will be recovered by the Scottish Government. NHS Fife will provide reduced funding contributions to the IJB to allow utilisation of the reserves balance.

As part of our audit work we will review the accounting treatment and disclosures in the annual accounts to ensure they comply with the relevant accounting standards and any other applicable guidance issued.

Cost of activities commissioned

In the 2021/22 annual accounts, a £3.250million adjustment was made to reflect transactions between NHS Fife and Fife Council in relation to funding and reserves which were not fully adjusted in the IJB Accounts. A recommendation was raised, by the predecessor auditors, to ensure that payments between constituent bodies are reconciled to consolidation adjustments made when preparing the IJB annual accounts.

As part of our audit work we will look to follow up on the IJB's progress in addressing this recommendation and ensure that the accounting treatment in the annual accounts for partner body funding complies with the relevant accounting standards.

Wider scope

Introduction

As described previously, the Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of audit areas:

- Financial sustainability
- Financial management
- Vision, leadership and governance
- Use of resources to improve outcomes.

Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon our understanding of the IJB's key priorities and risks along with discussions with management and review of committee minutes and key strategy documents.

We have identified one significant risk in relation to financial sustainability as set out in the table below. At this stage, we have not identified any significant risks in relation to the other wider scope areas.

Audit planning however is a continuous process and we will report all identified significant risks, as they relate to the four wider scope areas, in our annual audit report. This section summarises our audit work in respect of each wider scope area.

Wider scope significant risk

Financial sustainability

The 2023/24 budget is due to be approved by the IJB in March 2023. The draft forecasts identify a cumulative funding gap of £35million for the period 2023/24 to 2025/26. Discussions are ongoing with partner bodies to determine the level of financial gap over the medium term and the position will be finalised on confirmation of both partner's funding contributions. The IJB's financial planning is underpinned by its Medium Term Financial Strategy (MTFS). The MTFS is currently being revised to reflect the new and additional pressures that will face the IJB including the continued impact of the economic crisis, the ageing population and the COVID-19 pandemic. The refreshed MTFS is due to be presented to the IJB in 2023/24 and will be aligned to its Strategic Plan 2023-2026. In an environment of heightened financial pressures, increasing demand and the growing need to redesign services, robust and timely financial planning is essential in supporting the sustainability of the IJB in the medium to longer term.

The IJB has a significant reserves balance (£37.387million projected balance at November 2022 of which £6.032million remains uncommitted) but has acknowledged that these cannot be utilised as a sustainable solution to close the medium term budget gap. The IJB recognises that bridging gaps of this magnitude will require major changes to services and how they are delivered and have committed to a focus on service transformation to address the financial challenge in the medium and longer term.

Our audit response:

During our audit we will review whether the IJB has appropriate arrangements in place to manage its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of cost pressures and that continue to support the delivery of the IJB's statutory functions and strategic objectives.

Our audit approach to the wider scope audit areas



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Consideration

The health and social care sector continues to face unprecedented challenges to the sustainability of the system which have been exacerbated by the COVID-19 pandemic.

In 2022/23, the Scottish Government confirmed that no further funding would be provided to integrated authorities to support delegated services. The IJB has acknowledged that the impact of the COVID-19 pandemic will remain in the medium to longer term and that there will be continued pressure on services. Work is ongoing to assess the recurring costs of the pandemic and the impact that this will have on future budget gaps to allow for inclusion in longer term financial plans.

The National Care Service (Scotland) Bill was introduced to Parliament on 20 June 2022. The Bill is currently at stage one of approval which is due to conclude in March 2023. The Bill makes provision for the Scottish Ministers to establish and fund new bodies, called “care boards”, to plan and deliver services locally, which will replace integration authorities.

Our audit approach

During our 2022/2023 audit we will develop our assessment of the IJB’s financial standing. We will review and conclude on:

- The appropriateness and effectiveness of arrangements in place to address any identified funding gaps.
- The impact of the National Care Service on the IJB’s financial, strategic and operational planning.



Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Consideration

The IJB reported a surplus outturn position of £50.069million in 2021/22, largely as a result of additional COVID-19 funding made available by the Scottish Government.

In March 2022, the Board approved a balanced budget for 2022/23 through planned delivery of £3.794million previously unachieved savings. No new savings proposals were identified for 2022/23. As at November 2022, the IJB forecast an underspend position of £7.146million and achievement of £2.513million of its savings target (66.2%).

Achievement of a balanced financial position is subject to on-going management of pressures and uncertainties of which the IJB has identified as the most significant:

- The inability to deliver savings on a permanent basis;
- The impact of increasing inflationary pressures and an ageing demographic on the IJB; and
- The continued impact of the COVID-19 pandemic on services and core budgets.

The IJB forecast full year COVID-19 related expenditure of £14.548million in November 2022. Earmarked reserves for COVID-19 brought forward were intended to be utilised to cover this expenditure. The Scottish

Our audit approach

During our 2022/23 audit we will review, conclude and report on the following:

- The achievement of financial targets.
- Whether the IJB can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance.
- Whether the IJB has arrangements in place to ensure systems of internal control are operating effectively.
- Whether the IJB has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Consideration

Government has notified health boards and integrated authorities of its intention to recover £21million of the £35.993million COVID-19 reserves which places further pressure on the achievement of financial balance for the IJB in 2022/23.

Our audit approach



Vision, Leadership and Governance

Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Consideration

The Integration Scheme was reviewed by the partner bodies and approved by Scottish Government in March 2022. This prompted a review of the IJB’s governance arrangements and allowed for the creation and adoption of a new Committee Structure. The revised Governance Committee structure was approved by the IJB in April 2022 and consists of the IJB being supported by the following Committees:

- Audit and Assurance
- Finance, Performance and Scrutiny
- Quality and Communities

Board and Committee meetings continue to be held remotely through virtual means. Discussion is ongoing within the IJB to identify whether meetings should move to a hybrid approach going forward. Throughout 2022/23, the IJB has been able to maintain all aspects of board governance, including its regular schedule of Board and Committee meetings, to allow for effective scrutiny, challenge and informed decision making. However, the IJB has acknowledged that there is scope to improve the transparency of decision making by publishing Committee papers and minutes on its website.

The IJB approved its Strategic Plan 2023-2026 in January 2023. The Strategic Plan is supported by nine transformational strategies and five enabling strategies which are aligned to the Partnership’s vision of enabling the people of

Our audit approach

As part of our 2022/23 audit we will review, conclude and report on:

- Whether the IJB can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- The clarity of plans to deliver its 2023-2026 Strategic Plan.
- The transparency of decision-making, financial reporting and performance data.
- Reasonableness and consistency of the governance statement in relation to other information gathered during our audit.

Consideration

Fife to live independent and healthier lives. Work is ongoing to develop plans which will support delivery of the Strategic Plan 2023-2026 at an operational level. In addition, the IJB has committed to measuring performance against its strategic objectives and to provide an Annual Performance Report which will detail the progress made in delivering its Strategic Plan 2023-2026. The first Annual Report is due to be published in September 2023.

The Senior Leadership Team has established an extended leadership team and are working to support a vision of being amongst the best performing Health and Social Care Partnerships by 2025. This is known as 'Mission 2025'.

Our audit approach



Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness through the use of financial and other resources and reporting performance against outcomes.

Consideration

The IJB’s performance in 2021/22 was impacted by the COVID-19 pandemic, in particular in areas such as hospital admissions, care at home hours and the demand for mental health services.

The Workforce Strategy 2022-25 was approved by the IJB in November 2022 and is supported by a workforce plan which identifies priority short and medium term actions under the themes of Plan, Attract, Employ, Train & Nurture. However, recruitment remains a significant challenge to the IJB where staff vacancies is cited as the primary reason for the underspend position of £7.146million as at November 2022. The Workforce Strategy 2022-25 recognises that a collaborative approach is required to address workforce pressures due to recognition that recruitment problems also impact the IJB’s care partners in the third and independent sectors.

Delivery against local and national targets is presented to the IJB and Finance, Performance and Scrutiny regularly and as part of the Annual Performance Report. In 2022/23, the Partnership has committed to undertake a review of performance benchmarking across Scotland and to consider linking Best Value to outcomes for people.

Our audit approach

During 2022/23 we will review, conclude and report on;

- Whether performance reporting in 2022/23 is timely, reliable, balanced, transparent and appropriate to user needs.
- How the IJB demonstrates a focus on continuous improvement in the context of continuing and significant financial and operational challenge.

Consideration

The IJB approved a best value framework in 2019 and the latest review against the framework was presented to the Finance Performance and Scrutiny Committee in July 2022. Work is ongoing to address activity and action areas identified from the review in order to demonstrate a commitment to continuous improvement and best value.

Our audit approach

Your Azets audit management team

Chris Brown: Engagement Lead

chris.brown@azets.co.uk

Chris has over 25 years' experience in public sector auditing. Chris is a recognised specialist in public sector governance and risk management and his experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector. Chris is the appointed Engagement Lead to Fife IJB.



Karen Jones: Engagement Manager

karen.jones@azets.co.uk

Karen is one of the directors responsible for our Audit Scotland appointments. She has considerable experience in planning and delivering public sector audits, producing management reports and liaising with senior management and audit committees.

Karen will work alongside Chris to deliver the external audit to Fife IJB.



Audit timetable

The submission date for audited annual accounts in local government is generally set to be consistent with the date specified in the accounts regulations by which the IJB is required to approve its audited accounts. The Coronavirus (Scotland) Act 2000 permitted a deferral in 2019/20 and 2020/21 to 30 November, and a temporary amendment to the accounts regulations allowed a submission date of 30 November for 2021/22. However, the submission date is returning to pre-pandemic 30 September for 2022/23.

We have set out below target months which align to the schedule of IJB meetings. We aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues.

Audit work/output	Description	Target month/s	Audit and Assurance Committee	Deadline
Audit plan	<p>Planning meetings, understanding the entity, risk assessment.</p> <p>Audit plan setting out the scope of our audit, including key audit risks, presented to the Audit and Assurance Committee.</p>	March	22 March 2023	31 March 2023
Interim audit	Interim audit including review of accounting systems.	March - April	N/A	N/A
Final audit	Accounts presented for audit and final audit visit begins	July - August	N/A	N/A

Audit work/output	Description	Target month/s	Audit and Assurance Committee	Deadline
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	September	13 September 2023 (Board meeting 29 September)	30 September 2023
Annual Report to the IJB and the Controller of Audit	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	September	13 September 2023 (Board meeting 29 September)	30 September 2023

Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

For 2022/23, the new appointment process provided Audit Scotland with a fair representation of the current audit market for each individual body with the outcome of this exercise highlighting the increasing requirements, expectations and scrutiny of the audit profession.

The quality of audit work is an essential requirement in successfully delivering a fully compliant ISA and Code of Audit Practice audit. These factors have led to above inflationary increases in the cost of audit. Whilst these increases are significant these are consistent with evidence obtained from the profession and other UK audit agencies. On setting fees, Audit Scotland has ensured that efficiencies have been fully utilised to mitigate the impact.

For the local government sector, the average fee increase is 12.5%.

Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

As auditors we negotiate a fee with the IJB during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.

For 2022/23, we propose setting the audit fee above the expected fee level. We propose setting the 2022/23 audit fee above the expected fee to reflect the following areas of work:

Area	Fee
Additional costs associated with this being the first year of our audit appointment and developing our understanding of the IJB, increased focus on understanding the IJB's IT general controls, and delivering a hybrid style audit.	£2,000
Dealing with accounting queries which arise during the financial year; including consultation on the accounting treatment of COVID-19 earmarked reserves.	£1,000

	2022/23	2021/22
Auditor remuneration	£37,360	£19,290
Pooled costs	-	£2,010
Contribution to PABV costs	£6,540	£5,670
Audit support costs	£1,300	£1,030
Sectoral cap adjustment	(£10,730)	-
Total fee	£34,470²	£28,000

We will take account of the risk exposure of the IJB and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

² The expected fee level notified to the IJB for 2022/23 is £31,470 which is £3,470 higher than the fee agreed in the previous year and includes the sectoral increase of 12.5%. We have increased the auditor remuneration element of the audit fee by £3,000 for the reasons noted in this section.

Audit independence and objectivity

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non-audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by the IJB to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the IJB, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 1: Responsibilities of the Auditor and the IJB

The Accounts Commission, Controller of Audit and Audit Scotland

The Accounts Commission is an independent public body. Its members are appointed by Scottish Ministers and are responsible for holding local government to account.

Under statute, the Accounts Commission appoints a Controller of Audit to consider the results of the audit of accounts, including the wider-scope responsibilities and Best Value auditing. The Controller of Audit makes reports to the Accounts Commission on matters arising from the accounts and on Best Value and acts independently of the Accounts Commission when reporting to it.

Audit Scotland is an independent statutory body that co-ordinates and supports the delivery of high-quality public sector audit in Scotland. Audit Scotland oversees the appointment and performance of auditors, provides technical support, delivers performance audit and Best Value work programmes and undertakes financial audits of public bodies.

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The [2021 Code](#) came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to the IJB and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Financial management



Financial management means having sound budgetary processes. Audited bodies require to understand the financial environment and whether their internal controls are operating effectively.

Auditor considerations

Auditors consider whether the body has effective arrangements to secure sound financial management. This includes the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Vision, leadership and governance

Audited bodies must have a clear vision and strategy, and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.



Auditor considerations

Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. Auditors also consider the effectiveness of governance arrangements for delivery, including openness and transparency of decision-making; robustness of scrutiny and shared working arrangements; and reporting of decisions and outcomes, and financial and performance information.

Use of resources to improve outcomes

Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency and effectiveness through the use of financial and other resources, and reporting performance against outcomes.



Auditor considerations

Auditors consider the clarity of arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of inequalities, and deliver continuous improvement in priority services.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of the IJB's best value arrangements is integrated into our audit approach, including our work on the wider scope areas as set out in this plan. We will review and consider how the IJB demonstrates and reports that it has Best Value arrangements in place to secure continuous improvement.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

IJB responsibilities

The IJB has 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 enables it to successfully deliver its objectives. The features of proper financial stewardship include the following:

Area	IJB responsibilities
Corporate governance	<p>The IJB is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>The IJB has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report in accordance with prescribed requirements. Management commentaries should be fair, balanced and understandable. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>The IJB is responsible for developing and implementing effective systems of internal control as well as financial, operational and</p>

Area	IJB responsibilities
	<p>compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. The IJB is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>The IJB is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Financial position</p>	<p>The IJB is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best value</p>	<p>The IJB has a specific responsibility to make arrangements to secure Best Value. Best Value is defined as continuous improvement in the performance of the body's functions. In securing Best Value, the local government body is required to maintain an appropriate balance among:</p> <ul style="list-style-type: none"> • The quality of its performance of its functions • The cost to the body of that performance

Area	IJB responsibilities
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- The cost to persons of any service provided by it for them on a wholly or partly rechargeable basis.

In maintaining that balance, the IJB shall have regard to:

- Efficiency
- Effectiveness
- Economy
- The need to meet the equal opportunity requirements.

The IJB should discharge its duties in a way which contributes to the achievement of sustainable development.

Appendix 2: Potential impact on the IJB and our audit approach following revisions to auditing standards

Revised auditing standards which come into effect from the current year, will have a significant impact on the way we perform our audit, particularly how we assess the risk of material misstatement, our approach to the audit of fraud, and the ways we ensure our audits are performed in line with regulatory requirements and to a high standard. The table below provides further detail on the implications of these new requirements.

Key change	Potential impact on the IJB & our approach
Enhanced risk identification and assessment, promoting more focused auditor responses to identified risks	<p>Management and those charged with governance may receive more up-front questions as we plan the audit and identify and assess risks of material misstatement.</p> <p>We may conduct planning and risk assessment procedures at a different time to ensure that our understanding is comprehensive, and that information is leveraged effectively and efficiently.</p> <p>To facilitate a more robust risk-assessment, we may request additional information to enhance our understanding of systems, processes and controls. For example, we may request:</p> <ul style="list-style-type: none"> • a better understanding of the IJB's structure and operations and how it integrates information technology (IT) • more information about the IJB's processes for assessing risk and monitoring its system of internal control • more detailed narratives about how transactions are initiated, recorded, processed and reported

Key change	Potential impact on the IJB & our approach
	<ul style="list-style-type: none"> • policies and procedure manuals, flowcharts and other supporting documentation to validate our understanding of the information systems relevant to the preparation of the financial statements • more information to support our inherent risk assessment. <p>This information not only informs our risk assessment but also assists us in determining an appropriate response to risks identified, including any new significant risks which require a different response.</p>
<p>Understanding and acting on risks associated with IT</p>	<p>We will be asking tailored questions and making information requests to understand the IT environment, including:</p> <ul style="list-style-type: none"> • IT applications • supporting IT infrastructure • IT processes • personnel involved in the IT processes. <p>Combined with the controls that may be needed to address the identified and assessed risks of material misstatement, this understanding may also identify existing and new risks arising from the use of IT. Therefore, we will be asking more focused questions and requesting additional information to understand the general IT controls that address such risks. For example, we may have questions in relation to general IT controls over journal entries (e.g., segregation of duties related to preparing and posting entries) to address risks arising from the use of IT.</p> <p>Depending on our assessment of the complexity of systems and associated risks, we may also involve additional team members, such as IT specialists.</p>
<p>Enhanced procedures in connection with fraud</p>	<p>We will be asking targeted questions as part of an enhanced approach to fraud, including discussing with the IJB:</p> <ul style="list-style-type: none"> • any allegations of fraud raised by employees or related parties • the risks of material fraud, including those specific to the sector.

Key change	Potential impact on the IJB & our approach
	<p>Combined with other information, and any inconsistencies in responses from those charged with governance and management, we determine implications for further audit procedures. Work in connection with fraud may also now include the use of audit data analytics, or the inclusion of specialists in our engagement team to ensure we obtain sufficient appropriate audit evidence to conclude whether the financial statements are materially misstated as a result of fraud.</p> <p>In addition to existing communication and reporting requirements relating to irregularities and fraud, there may be further matters we report in connection with management’s process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.</p> <p>These enhanced requirements may assist in the prevention and detection of material fraud, though do not provide absolute assurance that all fraud is detected or alter the fact that the primary responsibility for preventing and detecting fraud rests with the IJB and management.</p>
<p>Enhanced requirements for exercising professional scepticism</p>	<p>Challenge, scepticism and the application of appropriate professional judgement are key components of our audit approach. You may receive additional inquiries if information is found that contradicts what our team has already learned in the audit or in instances where records or documents seen in the course of the audit appear to have been tampered with, or to not be authentic.</p>
<p>Using the right resources, in the right way, at the right time</p>	<p>One of our new strategic quality objectives sets out that we will strive to use the right resource, in the right way, at the right time. This may mean increasing the use of specialists (for example in relation to general IT controls) or changing the shape of the audit engagement team to ensure that we are able to provide appropriate challenge and feedback in specialist areas.</p> <p>This will include appropriate use of technology, including data analytics.</p>

Appendix 3: Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the IJB and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

	£million
Overall materiality for the financial statements	9.500
Performance materiality	7.125
Trivial threshold	0.250

Materiality

Our assessment is made with reference to the IJB's forecasted cost of delegated services. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance.

Our assessment of materiality equates to approximately 1.5% of the IJB's forecasted cost of delegated services.

In performing our audit, we apply a lower level of materiality to the audit of the Remuneration Report. Our materiality is set at £5,000.

Performance materiality

Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to

	<p>an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.</p>
Trivial misstatements	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Appendix 4: National risk areas under scope of audit in 2022/23

Climate change

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.

There are specific legal responsibilities placed on public bodies to contribute to reducing greenhouse gas emissions, to adapt to climate change, to act sustainably and to report on progress. A number of public bodies have declared a climate emergency and set their own net zero targets, some of which are earlier than Scotland's national targets. All public bodies will need to reduce their direct and indirect emissions, and should have plans to do so. Many bodies will also have a role in reducing emissions in wider society, and in supporting activity to adapt to the current and potential future impact of climate change. For example, working with the private sector and communities to help drive forward the required changes in almost all aspects of public and private life, from transport and housing to business support.

Public audit has an important and clear role to play in:

- helping drive change and improvement in this uncertain and evolving area of work
- supporting public accountability and scrutinising performance
- helping identify and share good practice.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

For 2022/23 audits, auditors are required to provide answers to the questions set out in the following table which are intended to gather basic information on the arrangements for responding to climate change in each body:

Key questions

What targets has the body set for reducing emissions in its own organisation or in its local area?

Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?

How does the body monitor and report progress towards meeting its emission targets internally and publicly?

Has the body considered the impact of climate change on its financial statements?

What are the areas of the financial statements where climate change has, or is expected to have, a material impact?

Does the body include climate change in its narrative reporting which accompanies the financial statements and is it consistent with those financial statements?

Cyber security

There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place.

A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

For 2022/23 audits, auditors are advised to consider risks related to cyber security at audited bodies. However, the revised ISA (UK) 315 includes enhanced requirements for auditors to understand a body's use of IT in its business, the related risks and the system of internal control addressing such risks. The Auditor General and Accounts Commission consider that meeting these additional requirements is likely to be sufficient consideration of cyber security in 2022/23.



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