

# Moray Integration Joint Board External Audit Plan

**Year ending  
31 March 2024**

27 June 2024



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Introduction

## Purpose

This document provides an overview of the planned scope and timing of the external audit of Moray Integration Joint Board for those charged with governance.

We are appointed by the Accounts Commission as the external auditors of Moray Integration Joint Board for the five-year period 2022/23 to 2026/27.

## Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. There are no significant changes in the scope of our work compared to the previous 2016 Code. However, the 2021 Code applies the requirement to communicate key audit matters to all bodies, but requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Moray Integration Joint Board are summarised in Appendix 1 of this Audit Plan. We draw your attention to this and the Code.

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Moray Integration Joint Board's financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit, Performance and Risk Committee). Our audit of the financial statements does not relieve management or the Audit, Performance and Risk Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope and Best Value work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Moray Integration Joint Board and is risk based.



# Plan overview

The audit plan sets out our risk-based audit approach for Moray Integration Joint Board. This plan outlines our initial risk assessment and is reported to those charged with governance (Audit, Performance and Risk Committee) and will be shared with Audit Scotland.

## 01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per audited 2022/23 financial statements as our benchmark, resulting in the following:

- £3.376 million planning materiality is based on 2% of gross expenditure.
- Performance materiality of £2.532 million is based on 75% of planning materiality.
- Trivial of £0.169 million is based on 5% of materiality.
- A lower materiality has been determined as:
  - £25,000 for the auditable elements of the Remuneration Report.
- We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2023/24.

## 02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risk:

- Management override of controls (ISA (UK) 240);

We will communicate significant findings on this area as well as any other significant matters arising from the audits to you in our Annual Audit (ISA 260) Report.

## 03 Wider Scope and Best Value Audit

In accordance with the Code, our planning considers the wider scope and Best Value areas of audit.

We have identified the following wider scope significant risk and will conclude on this during the audit:

- **Financial sustainability – future financial plans for 2024/25 and beyond**

As part of our integrated wider-scope work, we also use a risk-based approach to assess and report on whether Moray Integration Joint Board has made proper arrangements for securing Best Value and is complying with its community planning duties.

# Plan overview (continued)

## 04 Other audit matters

We summarise other audit matters for the Audit; Performance and Risk Committee's awareness. This includes:

- Consideration of going concern in accordance with Practice Note 10.
- In accordance with the Code and planning guidance we also required to complete and submit a number of information returns and other deliverables to Audit Scotland during the year.

## 05 Our Audit Fee

Audit fees were shared by Audit Scotland with Moray Integration Joint Board in January 2024. Our fee agreed with Moray Integration Joint Board is £33,360. This fee includes:

- Auditor remuneration £34,980
- Pooled costs £1,270
- Contribution to Performance Audit and Best Value costs £7,470
- Sectoral cap adjustment of -£10,360

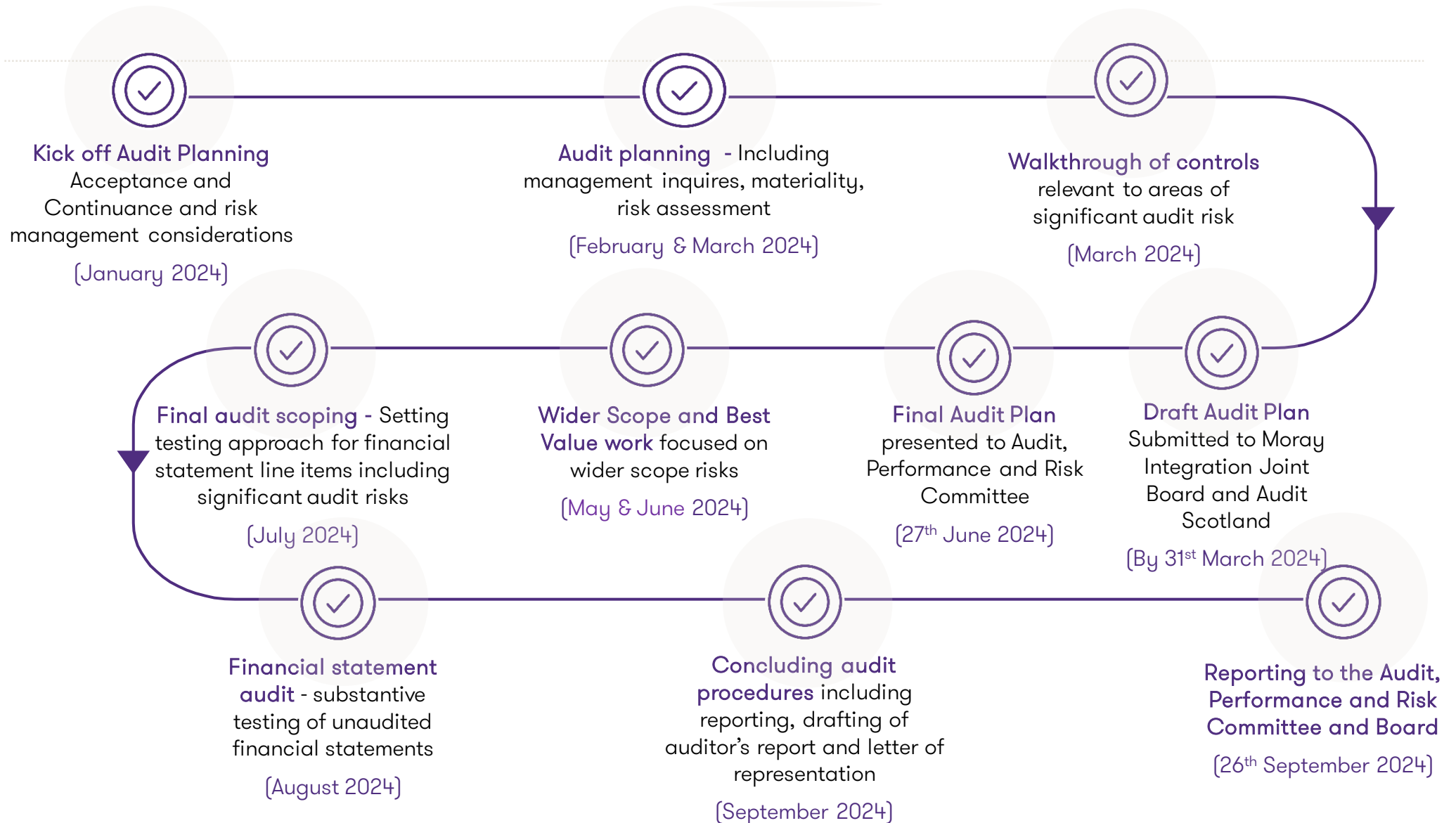
We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

## 06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

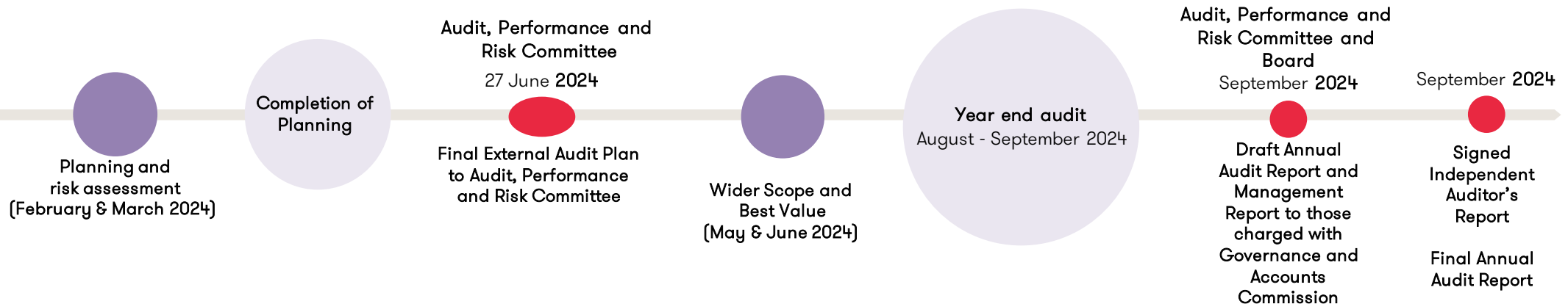
We have also invited members of your financial reporting team to our annual Local Government Chief Accountants workshop, which is led by our internal financial reporting technical team.

# Audit approach



# Audit timeline

We are required to submit audit plans to Audit Scotland by 31 March 2024, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 30 September 2024. We have set out below our planned timescales for the Moray Integration Joint Board audit.



## Audited body responsibilities

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

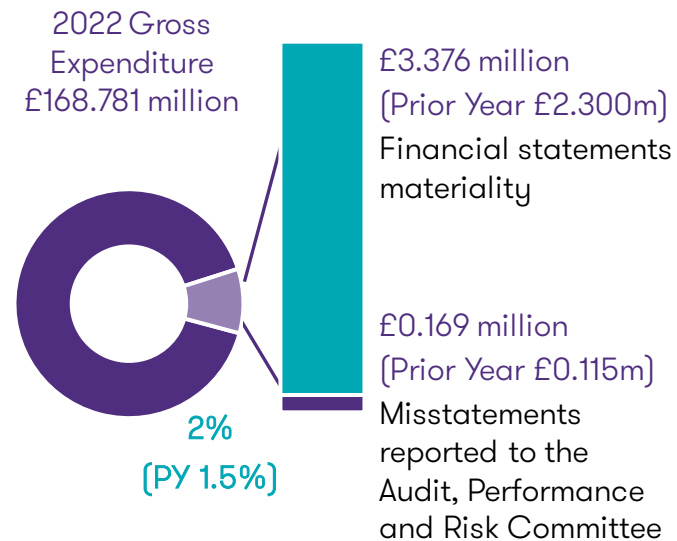
## Our requirements

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

- produce draft accounts, comprising financial statements and related reports, of good quality, by the deadline you have agreed with us
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

# Materiality

Financial statement materiality is determined based on a proportion of gross expenditure. We have determined **planning materiality** to be £3.376 million (Prior Year £2.300 million), which equates to approximately 2% of gross expenditure (Prior Year 1.5%) as per the 2022/23 audited financial statements.



**Performance materiality** represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 75% of planning materiality (Prior Year 65%), giving a PM of £2.532 million (Prior Year £1.495 million). This is based on our understanding of Moray Integration Joint Board and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate lower materiality level in the following areas:

- £25,000 for the auditable elements of the Remuneration Report

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £0.169 million which is based on 5% of materiality (Prior Year £0.115 million, 5%)

**We will reconsider our materiality based on the unaudited 2023/24 financial statements when received in June 2024. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.**



# Significant audit risks

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

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

As set out in ISA (UK) 240 (Revised May 2021) ‘The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements’ there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity’s internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

We will:

- Document our understanding of and evaluate the design effectiveness of management’s key controls over journals;
- Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;
- Test the high risk journals we have identified;
- Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;
- Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

“Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.” (ISA (UK) 315)

# Significant audit risks (continued (1))

## Risk of Fraud in Revenue (as required within Auditing Standards– ISA (UK) 240)

As set out in ISA (UK) 240 (Revised May 2021) there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities.

Moray Integration Joint Board's income consists of partner funding contributions from Moray Council and NHS Grampian. The funding (income) is agreed by all parties in advance of the financial year. There is no resultant estimate or judgement in this income stream. Any additional income in year, from either Partner, is agreed with the Integration Joint Board in advance, in accordance with the Integration Joint Board Directions in place.

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Moray Integration Joint Board, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

## Risk of Fraud in Expenditure (as recommended in Practice Note 10)

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

Moray Integration Joint Board delegates services to Moray Council and NHS Grampian. A budget is agreed by all parties in advance of the financial year. It is up to the Council and the NHS Board to spend the delegated budget, as agreed with the Integration Joint Board.

Having consider the risk factor and the nature of expenditure at Moray Integration Joint Board, with there being no judgement or estimates in the recognition of expenditure, we have determined that the assumed risk of fraud in expenditure recognition can be rebutted as opportunities to manipulate expenditure recognition are deemed to be limited.

We will communicate significant findings on these areas, as well as any other significant matters arising from the audit to you, in our Annual Report to those Charged with Governance and the Accounts Commission for Scotland in September 2024.

# Other matters

## Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2023/24 issued by Audit Scotland:

- We audit parts of your Remuneration Report, as required under the Code, and check whether these sections have been properly prepared (opinion).
- We read the sections of your Statement of Accounts which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We consider our other duties under the Code and planning guidance (2023/24), as and when required, including:
  - Supporting Audit Scotland’s reporting to the Accounts Commission
  - Contributing to Audit Scotland Performance Reports and providing regular updates to Audit Scotland to share awareness of current issues
  - Contributing to the National Fraud Initiative (NFI) report
  - Notifying the Controller of the Audit when circumstances indicate a statutory report may be required
  - Completing mandated information requests and returns and notifying Audit Scotland of any cases of money laundering or fraud
  - Review of Technical guidance prior to issue by Audit Scotland..

## Going concern assessment

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

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

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

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern. PN 10 allows auditors to apply a ‘continued provision of service approach’ when auditing going concern in the public sector, where appropriate. Audit Scotland’s also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work, we will conclude on Moray Integration Joint Board’s arrangements to ensure financial sustainability.

# Other matters (continued (1))

## Other material balances and transactions

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

## Internal control environment

During our initial audit planning we will develop our understanding of your control environment (design) as it relates to the preparation of your financial statements. In particular, we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: journal entries and other material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess or place any reliance on the operating effectiveness of your controls during our audit.

## Financial reporting developments

We invited members of your finance team to our LG technical audit workshops earlier this year. In February 2024, one representative attended our workshop.

During our audit we will actively discuss emerging financial reporting developments with you.

## Progress against prior year audit recommendation

As part of our final account's procedures, we will follow up on the implementation of prior year audit recommendations and report on progress against the recommendations in full within our Annual Audit Report.

# Wider scope risks identified in planning (1)

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas. These four dimensions have been slightly amended in the 2021 Code as shown in the table below.

| 2016 Code                   | 2021 Code                            |
|-----------------------------|--------------------------------------|
| Financial Sustainability    | Financial Sustainability             |
| Financial Management        | Financial Management                 |
| Governance and transparency | Vision, Leadership and Governance    |
| Value for Money             | Use of Resources to Improve Outcomes |

We consider each of these areas through our audit planning process and have set out below the identified areas of risk for our wider scope work.

From our initial planning work, we have identified one significant risk in relation to Financial Sustainability. We have not identified significant risks in relation to Financial Management; Vision, Leadership and Governance; and Use of Resources from our initial planning work. We will continue to review your arrangements before we issue our Annual Report.

## Financial sustainability

### Significant risk work area – future financial plans for 2024/25 and beyond

The Moray Integration Joint Board presented a working budget to the 28 March 2024 Board Meeting. The Revenue Budget for 2024/25 is £203.988 million which includes £13.917 million set aside services which represents Moray's share of the Large Hospital Services. The total funding provided totals £200.224 million, providing a budget deficit of £3.764 million. The budget setting for 2024/25 includes a savings plan totalling £9.530 million which was agreed at the Senior Managers Team meeting. The Integration Joint Board also need to identify further efficiency savings in order to close the budget deficit in 2024/25.

A finalised 2024/25 Revenue Budget will be presented to the 30 May 2024 Integration Joint Board meeting.

# Wider scope risks identified in planning (2)

## Financial sustainability (continued)

In line with Scottish Government guidance, Moray Integration Joint Board has prepared a Medium-Term Financial Framework covering 2023/24 – 2027/28. The financial pressures for 2024/25 and beyond are significant, with the total funding gap for the period currently projected to be £30.4m. The Integration Joint Board is preparing an updated Medium Term Financial Framework covering 2024/25 – 2028/29 which will be presented to the Board in May 2024. As part of our detailed wider scope work, we will review the updated financial framework to determine the future financial plans/position of the organisation.

We will seek to understand the future financial forecasts and plans for Moray Integration Joint Board for 2024/25 and beyond, including key assumptions used, scenario planning, sensitivity analysis, risk analysis and the extent of any budget pressures and any impact upon reserves. We will also consider the action Moray Integration Joint Board is taking to address identified funding gaps and associated savings plans.

## Financial management

We have not identified a risk in relation to Moray Integration Joint Board's financial management from our initial planning work. Revenue budget monitoring reports are presented to the Board at the end of each quarter and provide clear and concise detail on the financial performance of the Integration Joint Board. At 31 December 2023, the financial position is that the Moray Integration Joint Board's core services are overspent by £7.111 million with a provisional outturn to 31 March 2024 of an £11.211 million overspend. Key areas of challenge include inflationary pressures and increased social care costs.

As part of the 2023/24 Revenue Budget, Moray Integration Joint Board identified efficiency savings of £4.141 million in order to achieve a balanced budget. An integral part of the savings plans were reduction of costs within prescribing, overspending and overtime of £1.5 million. The monitoring report presented to the March 2024 Board meeting confirmed that these savings will not be achieved in 2023/24.

We will seek to understand the effectiveness of Moray Integration Joint Board's budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by Moray Integration Joint Board and we will seek to understand the future financial implications of this.

# Wider scope risks identified in planning (3)

## Vision, Leadership and Governance

We have not identified a risk in relation Moray Integration Joint Board's arrangements for vision, leadership and governance from our initial planning work. Moray Integration Joint Board hold a committee-based structure which has delegated functions to several committees who subsequently become responsible for the administration of services. The Board have recently appointed a new permanent Chief Financial Officer, who had previously carried out the role on an interim basis.

We will review the effectiveness of your scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. Our work will also include reviewing the consistency of your Governance Assurance Statement with the key findings from audit, scrutiny, and inspection.

We will continue to review your arrangements before we issue our Annual Report.

## Use of Resources to Improve Outcomes

Integration Joint Board's 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. We have not identified a risk in relation to Moray Integration Joint Board's use of resources to improve outcomes from our initial planning work.

We will review the arrangements that Moray Integration Joint Board has developed to address workforce challenges and improve performance, including Moray Integration Joint Board has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

# Wider scope risks identified in planning (4)

## Best Value

Under the new Code of Audit Practice, the audit of Best Value in Integration Joint Boards is fully integrated within the annual wider scope work performed by appointed auditors and their teams. Auditors are not expected to carry out detailed or separate work on the Best Value themes. It is acknowledged that as part of our review of arrangements embedded within our wider scope work, key aspects of the Best Value themes on Governance and Accountability and The Use of Resources will be covered. Our work will also include following-up on the prior year recommendation in respect of Moray Integration Joint Board developing its own assessment of Best Value made by your predecessor auditor (as reported on page 14).

As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk-based approach to assess and report whether the audited body has made proper arrangements for securing Best Value. We have not identified any significant risks in relation to Moray Integration Joint Board's Best Value arrangements at the planning stage.

Integration Joint Boards have a statutory duty to have arrangements to secure Best Value. To achieve this, Board's should have effective processes for scrutinising performance, monitoring progress towards their strategic objectives, and holding partners to account. Moray Integration Joint Board completed a self-evaluation exercise on the importance of securing best value, which was reported in June 2019, highlighting the need to 'develop better processes to evaluate and measure outcomes in line with Best Value'. This self-evaluation and the resulting action plan were revisited in April 2021 and an updated improvement action plan was approved in June 2021. Progress against this plan was reported to the Board meeting in January 2022 and a development session was held for members in February 2022.



# Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

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

Audit fees were shared by Audit Scotland with Moray Integration Joint Board in January 2024. Our proposed audit fee was agreed with the Chief Financial Officer and was presented to the Audit, Performance and Risk Committee on 27 June 2024. This is set out on page 18 of this Audit Plan. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

## Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

# Audit Fees (continued)

## Audit fees for 2022/23

| <b>Service</b>                                   | <b>Fees £</b>  |
|--|----------------|
| External Auditor Remuneration                    | £34,980        |
| Pooled Costs                                     | £1,270         |
| Contribution to Performance Audit and Best Value | £7,470         |
| Sectoral cap adjustment                          | -£10,360       |
| <b>2023/24 Fee</b>                               | <b>£33,360</b> |

## Additional Fees (Non-Audit Services)

| <b>Service</b>  | <b>Fees £</b> |
|---|---------------|
| At planning stage, we confirm there are no planned non-audit services | Nil           |

## Fee assumptions

In setting the fee for 2023/24, we have assumed that you will:

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

# Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

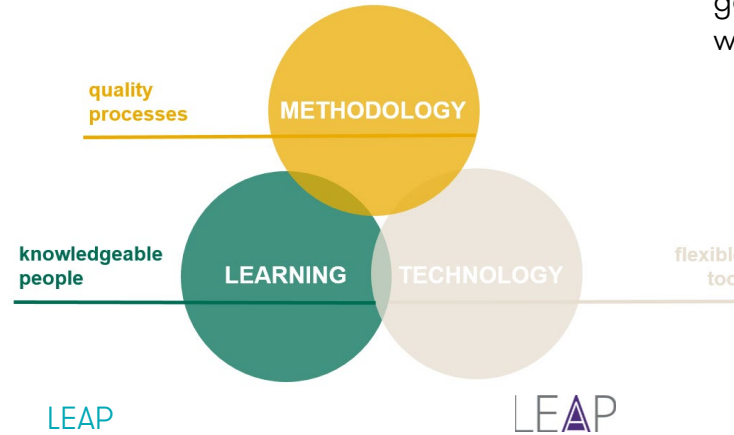
Our audit methodology is risk based and includes developing a good understanding of Moray Integration Joint Board. The diagram opposite summarises how our methodology and use of data adds value to our audit.

We comply with UK Auditing Standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2022/23 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: [Annual report 2022](#).

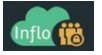
## Use of audit, data interrogation and analytics software



### LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

### Info



Cloud based software which uses data analytics to identify trends and high-risk transactions, generating insights to focus audit work and share with clients.



#### REQUEST AND SHARE

- Communicate and transfer documents securely; Extract data directly from client systems; Workflow assignment and progress monitoring



#### ASSESS AND SCOPE

- Compare balances and visualise trends; Understand trends and perform more granular risk assessment



#### VERIFY AND REVIEW

- Automate sampling; Download automated work papers



#### INTERROGATE AND EVALUATE

- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs



#### FOCUS AND ASSURE

- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance



#### INSIGHTS

- Detailed visualisations to add value to meetings and reports

# Appendices

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# Independence

## Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

**We confirm that there are no significant facts or matters that impact on our independence as auditors of Moray Integration Joint Board that we are required to report or wish to draw to your attention.**

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

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

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

**We confirm we are independent of Moray Integration Joint Board.**

## Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We did not provide any non-audit or additional services to Moray Integration Joint Board prior to our appointment as auditors.



# Responsibilities

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

## Moray Integration Joint Board

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

## External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope and Best Value work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required
- Notifying Audit Scotland of any known or suspected frauds greater than £5,000
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2023/24).



# Communication

ISA (UK) 260 ‘Communication with Those Charged With Governance’, as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit, Performance and Risk Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit, Performance and Risk Committee.

| Our communication plan  | Audit Plan | Annual Report (our ISA 260 Report) |
|---|------------|------------------------------------|
| Respective responsibilities of auditor and management/those charged with governance   | •          |                                    |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks   | •          |                                    |
| Confirmation of independence and objectivity  | •          | •                                  |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | •          | •                                  |
| Significant matters in relation to going concern  | •          | •                                  |
| Views about the qualitative aspects of Moray Integration Joint Board’s accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures  |            | •                                  |
| Significant findings from the audit   |            | •                                  |
| Significant matters and issues arising during the audit and written representations that have been sought   |            | •                                  |
| Significant difficulties encountered during the audit   |            | •                                  |
| Significant deficiencies in internal control identified during the audit  |            | •                                  |
| Significant matters arising in connection with related parties  |            | •                                  |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements   |            | •                                  |
| Non-compliance with laws and regulations  |            | •                                  |
| Unadjusted misstatements and material disclosure omissions  |            | •                                  |
| Expected modifications to the auditor’s report or emphasis of matter  |            | •                                  |

# Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

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

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

It is Moray Integration Joint Board's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

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

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures, we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.



# Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2023-24, we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report.

## Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Accounts Commission (as set out in the Audit Scotland Planning Guidance for 2023-24) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Moray Integration Joint Board, we will report to the Accounts Commission as required by Audit Scotland.

# IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021.

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

| IT system                            | Audit area                          | Planned level IT audit assessment  |
|--------------------------------------|-------------------------------------|--|
| Advance Business Solutions e5 System | Financial Reporting – Moray Council | <ul style="list-style-type: none"> <li>ITGC Assessment</li> </ul>  |
| eFinancials                          | Financial Reporting – NHS Grampian  | <ul style="list-style-type: none"> <li>Review of Service Auditor Reports</li> <li>ITGC Assessment</li> </ul> |

During our audit we will complete an assessment of the design and implementation of relevant ITGCs

# Future auditing developments

There are changes to the following ISAs (UK) which will impact on our LG audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022:

- ISQM (UK) 2 (Issued July 2021) 'Engagement Quality Reviews'
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2023.

- ISA (UK) 600 (Revised September 2022) 'Special Considerations- Audits of Group Financial Statements (including the work of component auditors)' - Applicable for audits of financial statement for periods commencing on or after 15 December 2023.
- IFRS 16 Lease will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions.

A summary of the impact of the key changes on various aspects of the audit is included on the next slides.

# Future auditing developments (continued (1))

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

| Area of change                                      | Impact of changes   |
|---|---|
| Quality control                                     | <ul style="list-style-type: none"> <li>• ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review.</li> <li>• The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon.</li> <li>• The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.</li> </ul> |
| Direction, supervision and review of the engagement | <ul style="list-style-type: none"> <li>• Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.</li> </ul>  |
| Definition of engagement team                       | <ul style="list-style-type: none"> <li>• The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The group auditor is required to determine the nature, timing and extent of involvement of component auditors in any group audit.</li> <li>• Component auditors may increasingly be involved in all phases of the group audit. The group auditor should be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work.</li> </ul>   |
| Documentation                                       | <ul style="list-style-type: none"> <li>• The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.</li> </ul>  |

# Future auditing developments (continued (2))

## IFRS 16 Leases

Following further deferral of IFRS 16 Leases in Local Government, this accounting standard is now mandated for implementation by local government bodies from 1 April 2024 (although earlier adoption is permitted).

The new standard brings significant changes for lessee accounting. Key points that Moray Integration Joint Board will need to consider on transition include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on the date of implementation as an adjustment to the opening balances of taxpayers' equity. (This means prior year comparators will not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term ends within 12 months.
- Assets where there is no or a below market rate peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.
- Irrecoverable VAT should not be included in the lease liability nor the value of the right of use asset.
- Existing finance lease and PFI liabilities that have an element based on an index or other rate will need to be reviewed and possibly amended as such variable payments are incorporated into the measurement of the lease liability under IFRS 16.
- In the year prior to implementation, the financial statements will need to disclose the anticipated impact of adopting IFRS 16 from 1 April of the following year.
- Systems will need to be in place to capture the relevant information for new leases entered into on or after implementation.

Moray Integration Joint Board will need to ensure that controls are in place to identify all of its contracts and any other arrangements which might contain the use of an asset, in order to ensure that the disclosures made in 2023/24 and accounting balances included within the body's 2024/25 financial statements are complete and accurate.

