

# Scottish Borders Integration Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Scottish Borders Integration Joint Board

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# Introduction

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## Summary of planned audit work

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

- obtaining assurances on the effectiveness of key controls within the main accounting systems, including testing of IJB related transactions, at the two partner bodies (Scottish Borders Council and NHS Borders)
- an audit of the annual accounts and provision of an Independent Auditor's Report
- an audit opinion statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements.

## Impact of Covid-19

**2.** The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

**3.** The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

**4.** We aim to add value to Scottish Borders Integration Joint Board through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the IJB promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Scottish Borders Integration Joint Board

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

### Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

### Scottish Borders Integration Joint Board responsibilities

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

9. Also, the IJB has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance that enable them to deliver their objectives.

### Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

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

## Exhibit 1

### 2021/22 Materiality levels

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.75% of gross expenditure for the year ended 31 March 2022 based on the latest financial monitoring report for 2021/22.	£3.75 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£2.44 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality.	£110 thousand

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**14.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>Although we have not identified any specific risks of management override relating to the IJB, ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> <li>• Service auditor assurances will be obtained from the audits of Scottish Borders Council ("the Council") and NHS Borders ("the Health Board") over the completeness, accuracy and allocation of the income and expenditure.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> </ul>

Source: Audit Scotland

**15.** As set out in International Standard on Auditing (UK) 240: The auditor's responsibilities relating to fraud in an audit of financial statement, there is a presumed risk of fraud over the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the annual accounts.

The IJB is wholly funded by NHS Borders and Scottish Borders Council. We have assessed that the risk of material misstatement arising from fraud over income is limited. This limitation is to such an extent that we have rebutted the risk of fraud over income from our significant audit risks.

**16.** In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2021/22 as we do not consider this to be a significant risk for the IJB. This is on the basis that all transactions are processed by the partner bodies rather than the IJB directly and that all expenditure is undertaken by the partners who are public sector bodies.

**17.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

### **Audit risk assessment process**

**18.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

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# Audit dimensions and Best Value

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## Introduction

19. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

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

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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21. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual



audit. We will also comment on financial sustainability in the medium/longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Best Value

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

## Audit dimension risks

**23.** We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

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### Exhibit 4

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>Financial management – Chief Financial Officer</b></p> <p>The Chief Financial Officer (CFO) is responsible for financial management and strategic planning, keeping proper accounting records, providing financial monitoring reports, and taking steps for the prevention and detection of fraud and other irregularities. The IJB does not have a permanent CFO in post, with the role currently being covered by the Director of Finance at NHS Borders and the Director of Finance and Corporate Governance at Scottish Borders Council.</p>	<p>Ongoing monitoring and reporting of IJB budget to the board during the year.</p> <p>Recruitment of permanent CFO currently underway.</p>	<ul style="list-style-type: none"> <li>• Ongoing discussions and meetings with management</li> <li>• Monitor compliance with financial management expectations in the absence of a CFO.</li> </ul>

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Description of risk	Sources of assurance	Planned audit response
<p>There is a risk that financial management and reporting to the IJB and preparation of the annual accounts could be adversely affected if a permanent CFO is not employed.</p>		
<p><b>Financial management – set aside</b></p> <p>Arrangements for the sum set aside for hospital acute services under the control of the IJB are not yet operating as required by legislation and statutory guidance. A notional budget has been agreed and included in the annual accounts in previous year in line transitional arrangements agreed by the Scottish Government.</p>	<p>A Set Aside group, to ensure compliance with the national legislation and statutory guidance, is to be established. The IJB Chief Financial Officer will be the responsible officer.</p> <p>The work of this group will be aligned with the wider IJB commissioning plan, led by the IJB Chief Officer.</p>	<ul style="list-style-type: none"> <li>• Ongoing discussions and meetings with management to monitor progress with the working group.</li> </ul>
<p><b>Financial sustainability</b></p> <p>There remains uncertainty around financial sustainability as the wider impact of Covid-19 is not yet known. In addition, there is a projected shortfall of £6.3 million against the required efficiency savings of £9.2 million agreed as part of the 2021/22 budget for the IJB.</p> <p>There is a risk of added financial pressure in subsequent years as budgets become increasingly constrained.</p>	<p>Regular monitoring and reporting to the Integration Joint Board on the financial position.</p>	<ul style="list-style-type: none"> <li>• Review financial monitoring reports to assess the financial position, including progress in realising efficiency savings by each partner.</li> <li>• Confirm and assess the steps taken to determine and agree future savings requirements with partner bodies.</li> </ul>

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

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

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

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

**27.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the Audit Scotland deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March 2022	14 March 2022
Independent Auditor's Report	31 October 2022	12 September 2022
Annual Audit Report	31 October 2022	12 September 2022

Source: Audit Scotland

## Timetable



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

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

**30.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

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## Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	13 June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with the Chief Finance Officer	2 September 2022
Agreement of audited and unsigned annual accounts	5 September 2022
Issue of Annual Audit Report to those charged with governance.	9 September 2022
Approval of audited unsigned annual accounts by the IJB Board	21 September 2022
Independent Auditor's Report signed	22 September 2022

Source: Audit Scotland

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## Audit fee

**31.** The audit fee for the 2021/22 audit of Scottish Borders IJB is £27,960 (2020/21: £27,330). In determining the audit fee, we have taken account of the risk

exposure of the IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**32.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

**33.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**34.** Internal audit is provided by the internal audit service at Scottish Borders Council and is overseen by the Chief Officer of Audit & Risk at the council who is the appointed Chief Internal Auditor for the IJB.

**35.** From our initial review of the internal audit plans, we do not plan to use internal audit's work to support our financial statements' responsibilities. We intend to review the findings of internal audit reports which will help inform our wider dimensions work.

## Independence and objectivity

**36.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**37.** The engagement lead (i.e. appointed auditor) for Scottish Borders IJB is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the

independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the IJB.

## Quality control

**38.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**39.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**40.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# Scottish Borders Integration Joint Board

## Annual Audit Plan 2021/22

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

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