

Scottish Borders Integration Joint Board

Annual Audit Plan 2022/23 - DRAFT



 AUDIT SCOTLAND

Prepared for Scottish Borders IJB
March 2023

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Introduction

Summary of planned audit work

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

- an audit of the 2022/23 annual accounts to support our opinions on the financial statements
- work to support our opinions on the other statutory information published within the annual accounts including the Management Commentary, the Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements

Audit Appointment

2. We are pleased to be appointed as the external auditor of Scottish Borders IJB for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

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

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

Adding value

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

Respective responsibilities of the auditor and Audited Body

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

Auditor responsibilities

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

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at the Scottish Borders IJB. In doing this, we aim to support improvement and accountability.

Scottish Borders IJB responsibilities

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

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

Financial statements audit planning

Introduction

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

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

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

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

Exhibit 1

2022/23 Materiality levels for Scottish Borders IJB

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the IJB's operations. For the year ended 31 March 2023 we have set our materiality at 2% of net expenditure based on the audited financial statements for 2021/22. We will reassess our materiality on receipt of the draft financial statements.	£4.36 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our	£3.27 million

professional judgement, we have assessed performance materiality at 75% of planning materiality.

Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.22 million
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

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

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

Exhibit 2**2022/23 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Evaluate the service auditor assurances obtained from the audits of Scottish Borders Council ("the Council") and NHS Borders ("the Health Board) in line with the 2022/23 Integration Joint Boards Protocol for Auditor Assurance. • Agreement of transactions and balances to financial reports from the Council and the Health Board. • Detailed testing of any significant year-end adjustments. • Review of Scottish Borders IJB financial monitoring reports during the year. • Evaluate significant transactions outside the normal course of business. • Test the process for the IJB to record transactions and balances around the year end where there may be increased incentive for fraud.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk as the IJB is wholly funded by contributions from the Council and the Health Board which are clearly

communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity and incentive to manipulate the recognition of income in the financial statements.

19. 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 2022/23. This is on the basis that all transactions are processed by the partner bodies rather than the IJB directly and that all expenditure is incurred by the partners who are public sector bodies. We consider the incentive and risk of material misstatement through fraud in expenditure as low.

20. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

21. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

22. The area of specific audit focus is:

- The Scottish Government wrote to all IJBs in September 2022 indicating that, due to changes in public health policy, it intended to reclaim and re-distribute some IJB reserves which relate to Covid funding to meet current Covid priorities. It is anticipated that this will be achieved through a reduction in NHS funding allocations, ultimately reducing NHS Borders' funding contribution to the IJB. We will review the disclosure and accounting treatments of this within the annual accounts.

Wider Scope and Best Value

Introduction

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

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

- **Financial management** - means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** - as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** - we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by Scottish Borders IJB. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** - we will consider how Scottish Borders IJB demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

25. We have identified a wider scope audit risk in the areas set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3**2022/23 wider scope risks**

Description of risk	Sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>The IJB operates in an environment of increasing constraints. There remains a risk around financial sustainability and financial pressure as budgets become increasingly constrained.</p> <p>There is a projected shortfall of £6.25m forecasted for the year to 31 March 2023, with this including the estimated impact of non-delivery of savings plans. This highlights the financial pressures facing the IJB and it needs to ensure it can transform services and service delivery to be financially sustainable.</p> <p>The IJB's future financial plans should demonstrate how it is working with partner bodies to deliver health and social care in a financially sustainable way.</p>	<ul style="list-style-type: none"> Regular monitoring and reporting to the Integration Joint Board on the financial position. 	<ul style="list-style-type: none"> Review of the IJB's financial reporting to assess the reasonableness of the assumptions in the financial plan. Review of progress made in dealing with cost pressures, including meeting any savings targets. Review of the Management Commentary in the annual accounts for disclosures on the IJB's financial decision making during 2022/23. Review of Board papers and minutes to assess the transparency of financial decision making.

Source: Audit Scotland

26. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

27. 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.

28. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the IJB's arrangements for responding to climate change and the extent it works with NHS Borders and Scottish Borders Council on areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

29. 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. In 2022/23, we will consider the IJB's arrangements for managing and mitigating cyber security risks, including working with the partner bodies.

Best Value

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

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

32. 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.

33. We will provide an independent auditor's report to Scottish Borders IJB and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide Scottish Borders 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.

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

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	20 March 2023
Independent Auditor's Report	30 September 2023	18 September 2023
Annual Audit Report	30 September 2023	18 September 2023

Source: Audit Scotland

Timetable



35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

36. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

37. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	19 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Chief Finance Officer	08 September 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	08 September 2023
Agreement of audited and unsigned annual report and accounts	18 September 2023
Issue of Annual Audit Report to those charged with governance.	18 September 2023
Signed Independent Auditor's Report	By 30 September 2023

Source: Audit Scotland

Audit fee

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

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

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

Fee component	Fees (£)
External Auditor Remuneration	33,060
Contribution to Audit Scotland costs	1,250
Contribution to Performance and Best Value	6,290
Sectoral Cap Adjustment	(9,130)
2022/23 Audit fee	31,470

Source: Audit Scotland

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

Other matters

Internal audit

41. It is the responsibility of Scottish Borders IJB to establish adequate internal audit arrangements. Scottish Borders IJB's internal audit function is provided by the internal audit team of Scottish Borders Council.

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

Independence and objectivity

43. 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.

44. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual 'fit and proper' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

45. The appointed auditor for Scottish Borders IJB is John Boyd, 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 Scottish Borders IJB.

Audit Quality

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

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

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

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

50. 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.

Appendix 1. Your audit team

51. The audit team involved in the audit of Scottish Borders IJB have significant experience in public sector audit.

John Boyd

Audit Director

jboyd@audit-scotland.gov.uk

John has overall responsibility for the Audit Engagement. He has considerable audit experience across public sector audits including local government, IJB, pension, health, and central government sectors. John is the Audit Scotland Audit Services Group Lead for local authority audit and is a member of the Local Authority (Scotland) Accounting Advisory Committee (LASAAC)

Stephanie Harold

Senior Audit Manager

sharold@audit-scotland.gov.uk

Stephanie has over 11 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Jennifer Law

Senior Auditor

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Jennifer has considerable experience in planning and delivering audits. Jennifer will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

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

Scottish Borders Integration Joint Board

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

www.audit-scotland.gov.uk/accessibility

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