

South Ayrshire Integration Joint Board

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for South Ayrshire Integration Joint Board

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 South Ayrshire Integration Joint Board (the Joint Board). The main elements of our work include:

- an audit of the annual accounts, and provision of an Independent Auditor's Report
- an audit opinion on 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 the Joint Board 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 the 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 so, we will help the Joint Board promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Performance and Audit Committee and actively participate in discussions.

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 Joint Board. 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 arrangements within the Joint Board to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

The Joint Board responsibilities

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

10. The Joint Board 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.

Communication of fraud or suspected fraud

11. In line with the ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Performance and Audit Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. During our audit, should members of the Joint Board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Annual Accounts audit planning

Introduction

12. The annual accounts are an essential part of demonstrating South Ayrshire Integration Joint Board's (the Joint Board) stewardship of resources and its performance in the use of those resources.

13. 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

14. Materiality is an expression of the relative significance of a matter in the context of the annual accounts. 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 determine with reasonable confidence whether the annual accounts 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

15. We assess materiality at different levels as described in [Exhibit 1](#).

Exhibit 1

2022/23 materiality levels for the Joint Board

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 Joint Board's operations. It has been set at 2% of gross expenditure based on the latest audited annual accounts for 2021/22.	£5.135 million

<p>Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the annual accounts audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.</p>	<p>£3.335 million</p>
<p>Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.</p>	<p>£250 thousand</p>

Source: Audit Scotland

Significant risk of material misstatement to the annual accounts

16. Our risk assessment draws on our cumulative knowledge of the Joint Board, 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.

17. 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.

18. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This risk has 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 risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance 	<ul style="list-style-type: none"> Assurances will be obtained from the auditors of NHS Ayrshire and Arran & South Ayrshire Council over the completeness, accuracy and allocation of income and expenditure. Evaluate any significant unusual transactions outside the normal course of business.

Source: Audit Scotland

Other area of audit focus

19. As part of our assessment of audit risks, we have identified one other area of specific audit focus. This is in relation to the IJB's reserves:

- The IJB holds an earmarked reserve balance for Covid-19 funding carried-forward from 2021/22 totalling £11 million. The Scottish Government outlined arrangements to enable Covid-19 reserve balances to be returned through NHS Board allocations back to the Scottish Government. This happened in February 2023, with £8 million being returned and £3 million spent or planned to be spent by the IJB in 2022/23. The accounting treatment has not yet been clarified but we will review this and the corresponding disclosures as part of our work on the annual accounts.

Consideration of the risks of fraud in the recognition of revenue and expenditure

20. 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 presumed risk in 2022/23 as, while the possibility of fraud exists, we do not judge it to be a significant risk due to the revenue streams coming from the partner bodies of NHS Ayrshire & Arran and South Ayrshire Council.

21. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. Due to the nature of the Integration Joint Board's expenditure, we have also rebutted the significant risk of material misstatement due to fraud in expenditure in 2022/23.

22. Assurances over the accuracy and completeness of IJB transactions will be obtained from the auditors of South Ayrshire Council and NHS Ayrshire & Arran.

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

Audit of the management commentary, governance statement and remuneration report

24. In addition to the appointed auditor's opinion of the financial statements, the appointed auditor is required to provide opinions as to whether the management commentary, the governance statement and the remuneration report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the accounts.

25. To inform these opinions we will consider whether the disclosures within each statement comply with the applicable guidance and confirm that relevant information reflects the contents of the accounts and other supporting documentation.

Wider Scope and Best Value Audit

Introduction

26. 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.

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

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

Significant wider scope risk

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

Exhibit 3

2022/23 significant wider scope risk

Description of risk	Sources of management assurance	Planned audit response
<p>1. Financial sustainability</p> <p>In recent years the Joint Board has achieved short term financial balance. However, it continues to be faced with significant financial challenges over the medium-term.</p> <p>The transformation change programme is progressing. However, work is still required to achieve the level of transformational change to ensure financial sustainability.</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 financial monitoring reports to assess the financial position, including progress in realising efficiency savings by each partner. Review updates to financial plans to assess the short and medium-term financial sustainability of the Joint Board.

Source: Audit Scotland

29. 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 the Joint Board's approach to tackling climate change.

Climate Change

30. 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. The Auditor General and Accounts Commission are developing a programme of work on climate change.

31. In 2022/23 we will gather information on the Joint Board's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Duty of Best Value

32. Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how the Joint Board 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

33. 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.

34. 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.

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

36. [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	Audit Scotland target date	Performance and Audit Committee Date
Annual Audit Plan	31 March 2023	30 May 2023
Independent Auditor's Report	30 September 2023	3 October 2023
Annual Audit Report	30 September 2023	3 October 2023

Source: Audit Scotland

Timetable



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

38. 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. In 2022/23 we may not meet the target of concluding the audit and signing the accounts by 30 September, but we hope to be as close to this as possible. We are currently planning for an October completion, see [Exhibit 5](#).

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

Exhibit 5

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance.	14 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	By 30 June 2023
Latest date for final clearance meeting with the Chief Financial Officer, agreement of the audited and unsigned annual accounts and the proposed annual audit report.	18 September 2023
Issue of proposed annual audit report, letter of management representation and proposed independent auditor's report to those charged with governance.	22 September 2023
Presentation of proposed annual audit report to those charged with governance.	3 October 2023
Approval of the Joint Board's annual accounts by those charged with governance, independent auditor's report signed electronically following this approval and the final annual audit report issued.	11 October 2023

Source: Audit Scotland

Audit fee

40. In determining the audit fee, we have taken account of the risk exposure of the Integration Joint Board's and the planned management assurances in place. The agreed audit fee for 2022/23 is £31,470 (£27,960 in 2021/22).

41. Our fees have increased in 2022/23 and this reflects 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.

42. In setting the fee for 2022/23 we have assumed that the Integration Joint Board 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

43. It is the responsibility of the Joint Board to establish adequate internal audit arrangements. South Ayrshire Council's internal audit function, led by the Chief Internal Auditor, provides the Joint Board with its internal audit service.

44. 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

45. 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.

46. 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.

47. The appointed auditor for the Integration Joint Board is Fiona Mitchell Knight, 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 Integration Joint Board's.

Audit Quality

48. 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.

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.

Appendix 1. Your audit team

50. The audit team involved in the audit of the Integration Joint Board have significant experience in public sector audit.

Fiona Mitchell Knight
Audit Director
FMitchell-Knight@audit-scotland.gov.uk

Fiona is the engagement lead for the audit of South Ayrshire Integration Joint Board and will sign of the independent auditor's report on the IJB's annual accounts. Fiona has 30 years' experience of public sector audit with Audit Scotland, covering local government, health and the further education sector.

Andrew Kerr CA
Senior Audit Manager
akerr@audit-scotland.gov.uk

Andrew has 10 years of auditing experience and has delivered external audit services to a range of organisations across all areas of the Scottish public sector.

Angus Brown CPFA
Senior Auditor
abrown@audit-scotland.gov.uk

Angus has over 20 years' experience in planning and delivering audits. Angus will lead and be responsible for day-to-day management of the audit and will be your primary contact.

51. 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.

South Ayrshire 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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