

Edinburgh Integration Joint Board

Annual Audit Plan 2023/24



Prepared for Edinburgh Integration Joint Board
February 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Edinburgh Integration Joint Board (Edinburgh IJB). The main elements of our work include:

- an audit of the annual accounts, leading to an independent audit opinion
- an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Management Commentary, the Annual 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
- an Annual Audit Report setting out our conclusions.

Respective responsibilities of the auditor and Edinburgh IJB

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

Auditor responsibilities

3. Our responsibilities as appointed 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.

4. 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 wider scope arrangements in place at the IJB. In doing this, we aim to support improvement and accountability.

5. The appointed auditor, and engagement lead, for Edinburgh IJB is Michael Oliphant, Audit Director.

Edinburgh Integration Joint Board's responsibilities

6. The IJB is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

7. 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, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. We aim to add value by: tailoring audit work to the circumstances of the IJB and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Assurance Committee; 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.

Annual Accounts

Introduction

- 8.** The annual accounts are an essential part of demonstrating the IJB's stewardship of resources and its performance in the use of those resources.
- 9.** Appointed auditors are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.
- 10.** We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.
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Materiality

12. 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 about 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 2023/24 audit

13. 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

2023/24 Materiality levels for Edinburgh Integration 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 IJB's operations. For the year ended 31 March 2024, we have set our	£18.5 million

Materiality	Amount
materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	
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 are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.	£13.0 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this threshold at 2% of planning materiality.	£370,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of the 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.

15. 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.

16. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This is a risk which has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, management's sources of assurance over this risk, and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's 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 ISA (UK) 240, management is in a unique position to perpetrate fraud</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"> We will request and review assurances from the auditors of NHS Lothian and City of Edinburgh Council in line with the Protocol for Auditor Assurance 2023/24 -

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		<p>Integration Joint Boards issued by Audit Scotland.</p> <ul style="list-style-type: none"> • We will evaluate any significant unusual transactions outside the normal course of business. • We will make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and test a sample of these transactions. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • We will assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, 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. As the IJB is wholly funded by budget allocations from its partner bodies, NHS Lothian and City of Edinburgh Council, we have assessed there is limited scope for manipulation and that the risk of material misstatement arising from fraud over income is limited. We have, therefore, rebutted this risk in accordance with ISA 240.

18. 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. We have rebutted this risk because the IJB does not directly

incur expenditure. The IJB commissions services from its partner bodies with expenditure processed through the financial systems of the partner bodies.

19. 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

20. As part of our assessment of audit risks, we have identified one 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 it to represent a significant risk. We will keep this area under review as our audit progresses.

21. The area of specific audit focus is:

- Charges for services provided by NHS Lothian

The expenditure recognised in the IJB's accounts for some services provided by NHS Lothian is determined by a cost allocation model (mapping table), with charges shared across its four integration partners. The mapping table allocations are reflective of current patient levels, local activity, cost data, and population distribution. Two recent internal audit reports on set-aside budgets (March 2023) and hosted services (November 2023) included recommendations to review the allocation methodologies in the mapping table, which we understand has been recently completed. We will request assurances from the auditors of NHS Lothian on the completeness and accuracy of the model. We will follow up implementation of the internal audit recommendations and consider any impact on the 2023/24 accounts.

Wider Scope and Best Value

Introduction

22. The Code of Audit Practice sets out four areas that frame the wider scope of public sector audit. This requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

23. In summary, the four wider scope areas are:

- **Financial management** – this 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** – we will look ahead to consider whether the body is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the IJB. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the IJB demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

24. We have identified significant risks in the wider scope areas set out in [Exhibit 3](#). This sets out the risks, management's sources of assurance for the risks, and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3**2023/24 wider scope risks**

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial management and sustainability</p> <p>The IJB approved an unbalanced budget for 2023/24 identifying a deficit of £47 million. A recovery plan, reflecting additional funding commitments from both partners, remains insufficient to deliver financial balance and leaves the IJB with a forecast overspend of £6 million at December 2023.</p> <p>The IJB continues to face significant future financial pressures with an increase in the estimated funding gap to £120 million by 2026/27, if no action is taken. Work to develop a medium-term financial strategy (MTFS) has been ongoing for several years but is not yet complete. There is a risk that financial balance over the three-year period of the MTFS is not achievable without significant negative impact on outcomes for people and performance more generally.</p> <p>Reduced costs from staff vacancies are helping to offset the financial challenges but the IJB is facing significant workforce pressures which impact on performance and service sustainability.</p>	<ul style="list-style-type: none"> • A regular finance update is presented to the board. This is supported by a separate report on progress with the savings and recovery programme (SRP) which is reviewed by the Performance and Delivery Committee. • The MTFS is being developed to address the IJB's financial gap on a sustainable basis. The MTFS for 2024/25 to 2026/27 will be submitted to the Board in March 2024. • The Innovation and Sustainability Portfolio merged into an overarching change programme during 2023/24, to include a wider portfolio of savings and improvement work that will support delivery of the IJB's strategic ambitions. • Initiatives to address recruitment challenges and to support recruitment activity have been implemented, including establishment of a workforce board. 	<ul style="list-style-type: none"> • We will monitor the forecast outturn as the year progresses. • We will follow up our prior year recommendation to ensure that the 2023/24 outturn report to members includes the achievement of savings targets and details of the reserves position. • We will follow up the ongoing external audit recommendation relating to the development of a MTFS. • We will consider the findings and recommendations from the City of Edinburgh Council internal audit review of HSCP financial sustainability. • We will consider the findings and recommendations from the internal audit reviews of the change programme and workforce optimisation.

Description of risk	Management's sources of assurance	Planned audit response
<p>2. Cyber security and legacy social care operating system (Swift)</p> <p>The City of Edinburgh Council's social care operating system, known as Swift, is no longer fit for purpose. Swift is also the source of payment information, provided by the Council, for the purpose of the IJB financial statements.</p> <p>Relying on legacy systems increases the risk of IT application failure, data quality issues and cyber-attacks.</p>	<ul style="list-style-type: none"> The risk associated with legacy systems is recognised by the City of Edinburgh Council and there is regular reporting on technology and information risks to the Council's Governance, Risk and Best Value Committee. SWIFT replacement has been agreed by the Council's Corporate Leadership Team (CLT) and the contract award for a replacement social care operating system is currently being progressed. 	<ul style="list-style-type: none"> We will request assurances from the auditors of City of Edinburgh Council on their assessment of the Council's ICT environment including arrangements for managing and mitigating cyber security risks. We will liaise with the auditors of City of Edinburgh Council and monitor progress with implementation of the replacement social care operating system.

Source: Audit Scotland

25. Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change.

Best Value

26. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how the 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

27. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

28. We will provide:

- an Independent Auditor's Report to the IJB and the Accounts Commission setting out our opinions on the annual report and accounts
- the IJB and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

29. [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 2024.

30. We will issue an Annual Audit Report, which summarises our findings from the audit of the 2023/24 annual accounts audit including our wider dimensions findings, by December 2024. We will work towards delivering the Annual Audit Report by 30 September over the period of the audit appointment.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	27 February 2024	5 March 2024
Independent Auditor's Report	3 September 2024	10 September 2024
Annual Accounts Report	3 September 2024	10 September 2024
Annual Audit Report	26 November 2024	3 December 2024

Source: Audit Scotland

31. All annual audit plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

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

33. 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. Cyber Security

Exhibit 5

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	3 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	14 June 2024
Latest date for final clearance meeting with the Director of Finance (or equivalent)	26 July 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	27 August 2024
Agreement of audited and unsigned annual accounts	3 September 2024
Issue of Annual Accounts Report to those charged with governance	3 September 2024
Signed Independent Auditor's Report	24 September 2024
Issue of Annual Audit Report to those charged with governance	26 November 2024

Source: Audit Scotland

Audit fee

34. In determining the audit fee, we have taken account of the risk exposure of the IJB and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. All public sector bodies will see a six per cent increase in their audit fees for 2023/24. The

proposed audit fee for the IJB in 2023/24 is £33,360 (2022/23: £31,470) as set out in [Exhibit 6](#).

Exhibit 6

Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	36,070
Pooled costs	1,310
Contribution to Performance and Best Value	7,700
Sectoral Cap Adjustment	(11,720)
Total 2023/24 fee	33,360

Source: Audit Scotland

35. In setting the fee for 2023/24, we have assumed that the IJB has effective governance arrangements and will prepare a comprehensive and accurate annual report and accounts for audit in line with the agreed timetable. 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

36. It is the responsibility of the IJB to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

37. While we are not planning to place formal reliance on the work of internal audit in 2023/24, 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

38. The appointed auditor is independent of the IJB in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

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

40. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the IJB.

Audit Quality

41. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

42. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring

arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

43. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

44. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

45. 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.

46. Audit Scotland may periodically seek your views on the quality of our service provision. The audit team would also welcome feedback more informally at any time.

Edinburgh 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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