

**Midlothian  
Integration Joint  
Board  
Annual Audit Plan  
Year ending 31 March 2019**

Audit and Risk Committee  
7 March 2019

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## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Integration Joint Board (the IJB) for financial years 2016/17 to 2020/21. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice (the Code), issued on 26 May 2016.

This report is for the benefit of the IJB and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland (together the Recipients). This report has not been designed to be of benefit to anyone except the Recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Recipients, even though we may have been aware that others might read this report.

Any party other than the Recipients that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Recipient's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, Ernst & Young LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Recipients.

## Complaints

If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with Stephen Reid who is our partner responsible for services under appointment by Audit Scotland, telephone 0131 777 2839, email sreid2@uk.ey.com. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, or with how your complaint has been handled, you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN. Alternatively you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

## Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Integration Joint Board ("the IJB") for the five year period 2016/17 to 2020/21.

This Annual Audit Plan, prepared for the benefit of IJB management and the Audit and Risk Committee, sets out our proposed audit approach for the audit of the financial year ending 31 March 2019, the third year of our appointment. In preparing this plan, we have updated our understanding of the IJB through planning discussions with management, review of relevant documentation and committee reports, and our general understanding of the environment in which the IJB is currently operating.

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the IJB employs best practice and where processes can be improved. We use these insights to form our audit recommendations to support the IJB in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit.

After consideration by the IJB, the plan is provided to Audit Scotland and published on their website.

## Scope and responsibilities

We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; International Standards on Auditing (UK); relevant legislation; and other guidance issued by Audit Scotland. The Code sets out the responsibilities of both the IJB and the auditor, more details of which are provided in Appendix A.

### Financial statement audit

We are responsible for conducting an audit of the financial statements of the IJB. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the IJB as at 31 March 2019 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published by the IJB along with its financial statements.

### Wider scope audit

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider-scope public audit. Our audit work over the wider scope audit dimensions compliments our financial statements audit.

## Materiality

Planning materiality £1.3 million	Materiality has been set at £1.3 million, which represents approximately 1% of the base expenditure for the year.
Tolerable Error £975,000	Tolerable error has been set at £975,000, which represents 75% of materiality. We set at this level as there were no audit adjustments arising in the prior year financial statements.
Summary of uncorrected differences £65,000	We will report all uncorrected misstatements relating to the primary financial statements greater than £65,000.  Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Risk Committee.

# Executive summary (continued)



## Key contacts

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## Independence

We confirm that we have undertaken client and engagement continuance procedures, included in which is our assessment of our continuing assessment of our independence to act as your external auditor.

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report, providing an overview of our initial risk assessment and any change in risk profile in the year.

### Financial statements audit

Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change	In accordance with ISA (UK) 240, we consider the presumed fraud risk in respect of improper income recognition. Due to the nature of funding to the IJB, we have rebutted the risk of fraud around income. We extend our work to consider the recognition of expenditure, in accordance with Practice Note 10, issued by the Financial Reporting Council, as applicable to public sector audit.
Misstatements due to fraud or error	Fraud risk	No change	As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud due to the ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. For the IJB we consider this risk to manifest itself through the above revenue recognition risk around expenditure.

### Wider scope audit

Audit dimension	Risk identified	Change from PY	Details
Financial sustainability	Wider scope focus area	No change	Achieving financial sustainability continues to represent a significant challenge for the IJB. A key component to this is the requirement to establish longer term financial planning arrangements. We will consider the pace and degree of progress by the IJB in establishing longer term financial planning arrangements as part of our audit work as follow up to our recommendation in our 2017/18 Annual Audit Report.
Financial management	No specific risk focus	Reduced	We concluded last year that the IJB had established its core financial management arrangements, and that these were adequate for the current management of its financial activities. Actions to bring the budget back into balance are to be developed in accordance with the requirements of the Integration Scheme, and are due to be reported back to the IJB for ongoing monitoring. We will review the outturn position against the forecasts produced during the year to inform our view on the robustness of financial management and monitoring information.
Governance & transparency	No specific risk focus	No change	We have not identified a specific focus area in respect of the IJB's governance arrangements. Internal audit's opinion for 2017/18 was that overall, the IJB's governance arrangements, risk management and systems of internal control were adequate.

# Executive summary (continued)



## Wider scope audit (continued)

Audit dimension	Risk identified	Change from PY	Details
Value for Money	No specific risk focus	No change	Our work around value for money will consider the IJB's arrangements for delivering and reporting on the pace and scale of progress in improved outcomes through integration.

# 1. Audit context

In accordance with the principles of the Code, our audit work considers key developments in the sector. We obtain an understanding of the strategic environment in which the IJB operates to inform our audit approach.

## Local government environment

The Accounts Commission published their Local government in Scotland: Financial overview 2017/18 report in November 2018. Part three of this report focused on the financial outlook facing local authority bodies. The Accounts Commission's key message was that the environment remains challenging, with further real-terms reductions in funding and a range of cost and demand pressures on budgets.

Key messages included:

- Funding to the IJBs increased in 2017/18 by 3% in cash terms. Most of this additional funding came from the NHS and includes additional Scottish Government funding to the NHS for IJBs of £107 million.
- The majority of IJBs have underlying financial sustainability issues, with 11 out of 30 incurring deficits in 2017/18. A further eight would have incurred deficits without additional ('deficit') funding from their partners.
- Reserve positions vary significantly across the IJBs.
- Medium-term financial planning is not in place across most IJBs and further improvements to financial management are required.

Similarly, the Auditor General for Scotland produces an annual overview of the NHS in Scotland with the most recent report issued in October 2018. The report notes that while the challenges facing the NHS in terms of increasing costs, growing demand and the continued pressure on public finances are not new and have been reported before, the impact on the NHS in Scotland is intensifying. The report notes the NHS in Scotland is not in a financially sustainable position. NHS boards are struggling to break even, relying increasingly on Scottish Government loans and one-off savings.

A key message of the report is that healthcare is likely to look very different in future. Health and social care integration marks a significant change in how the different parts of the health and social care system work together and how the Scottish public will access and use services in future. The report recognises that the scale, complexity and inter-dependencies of health and social care make achievement of the required changes a long-term undertaking.

The report makes a number of recommendations for the Scottish Government, NHS Boards and also integration authorities. The detail of these, within the context of the report, can be found at:

[http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr\\_181025\\_nhs\\_overview.pdf](http://www.audit-scotland.gov.uk/uploads/docs/report/2018/nr_181025_nhs_overview.pdf). As part of our work around the value for money dimension of wider scope, we will review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations.

## Scrutiny

While there is no formal Shared Risk Assessment (SRA) process for integration authorities, the Local Area Network (LAN) for the associated local authority considers health and social care outcomes, governance and partnership working as part of their assessment of the local authority. We are also the appointed auditor of Midlothian Council and act as the LAN-lead for the Midlothian Council SRA. The 2018/19 Local Scrutiny Plan did not highlight any significant scrutiny risk in relation to areas associated with the IJB, the main area of work being undertaken by Audit Scotland through performance audits around integration areas within local government.

## Headwinds in the public sector

Within the 2018/19 audit planning guidance, Audit Scotland identified a number of risk areas currently impacting the public sector in Scotland.

EU Withdrawal	Continuing uncertainty exists around the detailed implications for the UK, and Scotland around EU withdrawal. While this continues, it is important for all public sector bodies to remain aware of, and consider the implications for them in areas such as funding, workforce and regulation.
Changing landscape for public financial management	Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits worth over £3 billion a year. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater volatility, uncertainty and complexity.
Dependency on key suppliers	It has become clear that the collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure, including the risk of underperformance in suppliers that are experiencing difficult trading conditions.
Care income, financial assessments and financial guardianship	The experience of a few local government audits indicates there may be wider issues with the systems and processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship. In some cases, responsibility for financial assessments on those receiving care has transferred from social care to finance, and this has revealed issues with backlogs of financial assessment and under-recovery of care charges over long periods (more than five years).
Openness and transparency	There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. This is a particular area of consideration in respect of the IJB's financial statements and its disclosures around the front end narrative of the financial statements, and the impact on the public of how it uses public money.

### Our audit response:

We will engage with management to understand how these, and other risks, are identified and managed to the extent that they may directly affect the IJB, including the extent of assurance obtained over the management of these risks by Midlothian Council and NHS Lothian.

### Audit Scotland performance audits

In 2018, Audit Scotland completed its second performance audit of Health and Social Care Integration, published in November 2018, using data taken from the sector, including the IJB. The scope of the second audit, including following up on previous recommendations and considering governance arrangements, focused on how integration is changing the way services are planned and designed around the needs of local communities. The main conclusions from Audit Scotland were:

- While improvements in health and social care have begun to be delivered through changes to service delivery in some areas, there is still much more to be done in a very challenging environment;
- Financial planning is neither long term, integrated or focused on providing the best outcomes for those who need it. Key parts of the integration legislation remain unenacted in areas;
- A number of significant barriers need to be addressed to improve the pace of change; and
- Improvements must be made to engagement and shared learning across integrated bodies.

The report included a number of recommendations for all parties. Those for integration authorities focused on the alignment of strategic, operational and financial plans, reporting of best value and delivery of a more long term integrated financial planning arrangement. As part of our work around the value for money dimension of wider scope, we will review the IJB's arrangements for considering national reports, including evaluating the findings and implementing recommendations.



## 2. Financial statements and accounting

The IJB's Annual Accounts enables the IJB to demonstrate accountability for, and its performance in the use of its resources. They are prepared in accordance with proper accounting practice, which is represented by the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

### Audit opinion

We are responsible for conducting an audit of the financial statements of the IJB. We will provide an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the IJB and its group as at 31 March 2019 and its expenditure and income for the year then ended; and
- whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published by the IJB along with its financial statements.

### Audit approach

We determine which accounts, disclosures and relevant assertions could contain risks of material misstatement. Our audit involves:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the IJB's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. For 2018/19 this will include consideration of the application of the revised guidance for the production of IJB financial statements. This was issued for consultation in late 2018 and is anticipated to be finalised shortly for implementation.
- Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the IJB to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit and Risk Committee reporting appropriately addresses matters communicated by us to the Audit and Risk Committee and reporting whether it is materially inconsistent with our understanding and the financial statement.
- Maintaining auditor independence.
- Substantive tests of detail of transactions and amounts. For 2018/19 we plan to follow a predominantly substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

### Materiality

For the purposes of determining whether the financial statements are free from material error, in accordance with ISA (UK) 320 we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

### Estimated gross expenditure on provision of services = £227 million

<b>Planning materiality</b> £1.3 million	Planning materiality (PM) – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. For planning purposes, materiality for 2018/19 has been set at £1.3 million. This represents approximately 1% of the IJB's projected expenditure for the year.
<b>Tolerable Error</b> £975,000	Tolerable error (TE) – materiality at an individual account balance, which is set so as to reduce to an acceptably low level that the aggregate of uncorrected and undetected misstatements exceeds PM. We have set it at £975,000 which represents 75% of planning materiality.
<b>Summary of Audit Differences</b> £65,000	Summary of Audit Differences (SAD) Nominal amount – the amount below which misstatements whether individually or accumulated with other misstatements, would not have a material effect on the financial statements. The Code requires that auditors report at no more than £0.25 million. We have set it at £65,000, which represents 5% of planning materiality.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements. Based on these considerations, we apply lower materiality levels to the following areas we consider to be material by nature rather than size:

- Remuneration Report; and
- Related Party Transactions.

We will therefore review the disclosures related to the above areas in full rather than applying the materiality thresholds outlined above.

The amount we consider material at the end of the audit may differ from our initial determination. At the end of the audit we will form, and report to you, our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

## 2. Financial statements and accounting



We have set out the significant risks, including fraud risks, identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

### Fraud risk – risk of fraud in expenditure recognition, including through management override of controls

What is the risk?	Our identified response to the risk
<p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Given the nature of funding to the IJB from the Council or NHS, we rebut the assumed fraud risk in respect of the income. For expenditure we associate the recognition risk to the completeness and occurrence of expenditure incurred by the IJB in commissioning services, and any associated creditor balances held by the IJB at yearend, in particular through management override of controls.</p> <p>We have not identified any other specific areas where management override will manifest as a significant fraud risk, however we will continue to consider this across the financial statements throughout the audit.</p>	<ul style="list-style-type: none"> <li>➤ Challenge management around how the IJB gains assurance over the expenditure incurred by its partner bodies, so that it can account for the recognition of expenditure to those bodies.</li> <li>➤ Substantively test income and expenditure transactions as appropriate and material, in particular in respect of any reserve funding held by the IJB.</li> <li>➤ Obtaining supporting documentation through independent confirmations of the expenditure incurred by the IJB's partners and those bodies auditors.</li> <li>➤ Performing mandatory procedures including testing of all material journal entries and other adjustments in the preparation of the financial statements.</li> </ul>

- Significant risks identified in the audit relate to the risk of fraud in expenditure recognition including the risk of misstatement due to fraud or error caused by management override of controls.
- We will report our findings in these areas to you within our 2018/19 Annual Audit Report.

### **3. Wider scope audit risks**

# 3 Wider Scope Audit Risks



The Code sets out an expectation that ‘significant’ risks identified through our planning process that relate to the four wider scope dimensions of public audit, as identified in the Code, will be communicated with you. These are referred to in our report as ‘Wider Scope Audit Focus Areas’.

Audit dimension	Risk assessment	Rationale and response
<p>Financial sustainability considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.</p>	<p><b>Audit Focus Area</b></p>	<p>We concluded in our work in the prior year that achieving financial sustainability continued to represent a significant challenge for the IJB. Management has recognised a key component to this is the requirement to establish longer term financial planning arrangements.</p> <p>The IJB is continuing to consider its longer term strategic and financial planning processes and how to incorporate transformational change requirements of its partners within future directions.</p> <p>We will consider the pace and degree of progress by the IJB in its longer term financial planning as part of our audit work as follow up to our recommendation in our 2017/18 Annual Audit Report.</p>
<p>Financial management considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p><b>No specific additional audit focus</b></p>	<p>We concluded last year that the IJB had established its core financial management arrangements, and that these were adequate for the current management of its financial activities. The IJB is reporting financial pressures of £2.83 million on its overall budget for 2018/19. Actions to bring the budget back into balance are to be developed in accordance with the requirements of the Integration Scheme, and are due to be reported back to the IJB for ongoing monitoring. Both Partners have provided the IJB with indicative funding allocations up to 2022/23, to support medium term financial planning.</p> <p>We will review the outturn position against the forecasts produced during the year to inform our view on the robustness of financial management and monitoring information. We will also consider the ongoing robustness of the financial regulations established by the IJB.</p>

### 3 Wider Scope Audit Risks (continued)



The Code sets out an expectation that ‘significant’ risks identified through our planning process that relate to the four wider scope dimensions of public audit, as identified in the Code, will be communicated with you. These are referred to in our report as ‘Wider Scope Audit Focus Areas’.

Audit dimension	Risk assessment	Rationale and response
<p>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.</p>	<p>No specific additional audit focus</p>	<p>We have not identified a specific focus area in respect of the IJB’s governance arrangements. Internal audit’s opinion for 2017/18 was that overall, the IJB’s governance arrangements, risk management and systems of internal control were adequate.</p> <p>A risk management strategy and the accompanying risk register highlights the risks. Mitigating controls, residual risk and accompanying actions have been further developed and reported during 2017/18 to the IJB and also to the Audit and Risk Committee, in its oversight role to monitor the IJBs risk management arrangements.</p> <p>Our audit strategy for 2018/19 will consider:</p> <ul style="list-style-type: none"> <li>➤ Can the IJB demonstrate that the governance arrangements are appropriate and operating effectively;</li> <li>➤ Is there effective scrutiny, challenge and transparency on decision making and financial and performance reports?;</li> <li>➤ Is the governance framework sound and are the governance arrangements effective?</li> <li>➤ Is the Governance Assurance Statement complete and does it reflect key findings from audit, scrutiny and inspection?</li> </ul>

# 3 Wider Scope Audit Risks (continued)



The Code sets out an expectation that ‘significant’ risks identified through our planning process that relate to the four wider scope dimensions of public audit, as identified in the Code, will be communicated with you. These are referred to in our report as ‘Wider Scope Audit Focus Areas’.

Audit dimension	Risk assessment	Rationale and response
<p>Value for money considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.</p>	<p>No specific additional audit focus</p>	<p>We have not identified a specific additional risk in respect of the IJB’s arrangements. However, our audit will review the IJB’s arrangements and consideration of the guidance issued by Audit Scotland in March 2018; Auditing Best Value – Integration Joint Boards. In particular we will review the IJB’s arrangements around:</p> <ul style="list-style-type: none"> <li>➤ How the IJB is demonstrating the impact of integrating;</li> <li>➤ The effectiveness of plans in improving the outcomes for local people;</li> <li>➤ How the integration partners are working together to deliver integration reform; and</li> <li>➤ The overall pace and scale of change.</li> </ul> <p>We will also consider how management is responding to and addressing the key risks and headwinds facing the sector, and we will review the IJB’s arrangements for considering national reports, including evaluating the findings and implementing recommendations, as outlined earlier in our report.</p> <p>Value for money considerations will inherently impact and be impacted by our audit work around the remaining wider scope dimensions, in particular financial sustainability and governance and transparency. We will also consider the findings from our best value work with the Council under our audit appointment for any impact on the IJB.</p> <p>In our 2017/18 Annual Audit Report, we noted that the IJB should ensure its Annual Performance Report is finalised and published by 31 July in accordance with the requirements of the Act. This will be followed up as part of audit work in 2018/19.</p>



## **4. Timing and deliverables; fees**

# 4. Timing and deliverables



We deliver our audit in accordance with the timeline set by the IJB, in accordance with guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

	Audit Activity	Deliverable	Expected Timing
JAN			
FEB			
MAR	<ul style="list-style-type: none"> <li>➤ Audit planning and setting scope and strategy for the 2018/19 audit</li> </ul>	Annual Audit Plan	7 March 2019
APR			
MAY	<ul style="list-style-type: none"> <li>➤ Ongoing assessment around wider scope dimensions and support of Audit Scotland requested information</li> </ul>	n/a - as appropriate	n/a
JUN			
JUL	<ul style="list-style-type: none"> <li>➤ Year-end substantive audit fieldwork on unaudited financial statements</li> </ul>	Audit clearance meeting	July / August 2019
AUG			
SEP	<ul style="list-style-type: none"> <li>➤ Conclude on results of audit procedures</li> <li>➤ Issue opinion on the IJB's financial statements</li> </ul>	Certify Annual Financial Statements  Issue Annual Audit Report	5 September 2019

## 4. Fees



The audit fee is determined in line with Audit Scotland's fee setting arrangements, set out in recent communications to all audited bodies in line with their publication on 'Our Approach to setting audit fees' ([http://www.audit-scotland.gov.uk/uploads/docs/um/audit\\_fee\\_approach.pdf](http://www.audit-scotland.gov.uk/uploads/docs/um/audit_fee_approach.pdf)).

Audit fees		
Component of fee:	2018/19	2017/18
Auditor remuneration - expected fee	£17,200	£24,000
Total agreed auditor remuneration	£17,200	£24,000
Audit Scotland fixed charges:		
Pooled costs	£1,670	£1,460
Performance audit and best value	£5,050	£5,020
Audit support costs	£1,080	£1,050
Total fee	£25,000	£31,530

The expected fee for each body, which for 2018/19 has been set centrally by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

Fees can be agreed between the auditor and audited body by varying the auditor remuneration by up to 10% above the level set, for example, where significant local issues require additional work to be undertaken.

# Appendices

**A – Code of Audit Practice: responsibilities**

**B – Required communications with the Audit and Risk  
Committee**

**C – Auditor independence**

The Code of Audit Practice (the Code) summarises the responsibilities on all audited bodies falling within the public sector audit framework. We summarise these on this page.

## Responsibilities of audited bodies

Corporate governance	Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit and Risk Committees or equivalent) in monitoring these arrangements.
Financial statements and related reports	<p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.</li> <li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.</li> <li>• maintaining proper accounting records.</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.</li> </ul> <p>Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
Standards of conduct / prevention and detection of fraud and error	Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
Financial position	<p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• such financial monitoring and reporting arrangements as may be specified</li> <li>• compliance with any statutory financial requirements and achievement of financial targets</li> <li>• balances and reserves, including strategies about levels and their future use</li> <li>• how they plan to deal with uncertainty in the medium and longer term</li> <li>• the impact of planned future policies and foreseeable developments on their financial position.</li> </ul>
Best Value	<p>Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.</p> <p>Specified audited bodies also have to prepare and publish performance information in accordance with directions issued by the Accounts Commission.</p>

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

### Relationships, services and related threats and safeguards

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We are not aware of any relationships between Ernst & Young LLP and the IJB that may reasonably be thought to bear on our independence as of the date of this letter.

As part of our considerations for any non-audit engagement, we review potential threats in respect of self-interest, self-review, acting as management and advocacy. There are no non-audit services provided to IJB at this time.

### Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate any potential threats identified and we therefore confirm that EY is independent and the objectivity and independence of Stephen Reid, your audit engagement partner and the audit engagement team have not been compromised.

# C - Required communications



Required communication	Our reporting to you
<p>Terms of engagement / Our responsibilities</p> <p>Confirmation by the Audit and Risk Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.</p> <p>Our responsibilities are as set out in our engagement letter.</p>	<p>Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice</p>
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p>	<p>Annual Audit Plan</p>
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	<p>Annual Audit Report</p>
<p>Misstatements</p> <ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Corrected misstatements that are significant</li> <li>• Material misstatements corrected by management</li> </ul>	<p>Annual Audit Report</p>
<p>Fraud</p> <ul style="list-style-type: none"> <li>• Enquiries of the Audit and Risk Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• A discussion of any other matters related to fraud</li> </ul>	<p>Annual Audit Report</p>
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Risk Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Risk Committee may be aware of</li> </ul>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>

Required communication	Reference
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No such matters have been identified.</p> <p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>Annual Audit Report</p>
<p>Internal controls</p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>
<p>Representations</p> <p>Written representations we are requesting from management and/or those charged with governance</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>
<p>Material inconsistencies</p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>Annual Audit Report (to be issued on completion of audit work) or as occurring if material.</p>



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