

East Lothian Integration Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for the East Lothian Integration Joint Board

January 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the East Lothian Integration Joint Board (the EL IJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the EL IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the EL IJB. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Sources of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Testing of key controls in East Lothian Council.</p> <p>Assurances to be obtained from the auditors of NHS Lothian.</p>
<p>2 Risk of material misstatement caused by fraud in expenditure</p> <p>The expenditure of the IJB is processed through the financial systems of East Lothian Council and</p>	<p>Assurances to be provided to the IJB by East Lothian Council and NHS Lothian on the completeness and</p>	<p>Assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy, and allocation of the</p>

 Audit Risk	Sources of assurance	Planned audit work
<p>NHS Lothian.</p> <p>There is a risk that non-IJB related expenditure is incorrectly coded to the IJB account codes.</p>	<p>accuracy of transactions coded to the IJB codes.</p>	<p>income and expenditure.</p>

Wider dimension risks (only where significant risk identified)

<p>3 Financial sustainability</p> <p>The IJB's five year financial plan identifies the funding gaps the IJB faces each year. These are £1.5 million in 19/20 rising to £17.7 million by 2023/24. Work is required to ensure financial pressures can be addressed. There is a risk the IJB may not be able to deliver the targeted savings/plans in 2019/20 and beyond and that the IJB is not living within its means.</p>	<p>Routine budget monitoring, updating and reporting of the medium to long term plans.</p> <p>Utilisation of the Scottish Government's Medium Term Financial Framework for Health and Social Care.</p>	<p>Attendance at the Board/Committee meetings.</p> <p>Review of papers/plans submitted to assess progress.</p>
<p>4 Value for money – reporting best value</p> <p>The IJB publishes an annual Performance Report as prescribed by the Public Bodies (Joint Working) (Scotland) Act 2014. IJBs also have a duty to make arrangements to secure best value. The EL IJB has not yet reported on its arrangements to secure best value.</p> <p>The Performance Report for 2019/20 should set out how the EL IJB demonstrates that it is meeting its best value duties to ensure compliance with the guidance and to demonstrate the delivery of best value to the residents of East Lothian.</p>	<p>The IJB is committed to delivering best value through its strategic plan. Best value reporting through the IJB's strategic planning group and its annual performance report.</p>	<p>Review and report on the IJB's best value arrangements and reporting of these.</p>

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 because the EL IJB's income consists of funding from its partner bodies (East Lothian Council and NHS Lothian). We place reliance on the assurances received from the external auditors of East Lothian Council and NHS Lothian (the partner bodies) in this regard.

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

7. 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 officer(s) to confirm factual accuracy.

8. We will provide an independent auditor's report to the EL IJB and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the Chief Officer, Chief Financial Officer (the 'proper' officer), members of the EL IJB Audit and Risk Committee and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the 2019/20 audit.

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	22 January 2020	22 January 2020
Independent Auditor's Report	By September 2020	TBC
Annual Audit Report including ISA 260 requirements	By September 2020	TBC

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2019/20 audit of the EL IJB is £26,560 (2018/19: £25,000). In determining the audit fee we have taken account of the risk exposure of the IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts by 30 June.

10. A supplementary audit fee may be applied where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or, from carrying out any work or other significant exercises out with our planned audit activity

Responsibilities

Audit and Risk Committee and Chief Financial Officer

11. Audited bodies have 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 successfully deliver their objectives.

12. The audit of the annual accounts does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

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

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

Audit scope and timing

Annual accounts

15. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our audit judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the EL IJB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how East Lothian Integration Joint Board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial position of the EL IJB and its income and expenditure as at 31 March 2020;
- have been properly prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

17. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been complied with in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also review the content of the annual report for consistency with the financial statements and with our knowledge of the IJB. We report any uncorrected material misstatements in statutory other information.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for the EL IJB are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of net expenditure for the year ended 31 March 2019, based on the audited accounts for 2018/19.	£1.6 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£1.2 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£16,000

Source: 2018/19 (audited) East Lothian Integration Joint Board Annual Accounts

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

Key stage	Date
Consideration of unaudited annual report and accounts by those charged with governance	By 30 June 2020
Latest submission of unaudited annual report and accounts with working papers	By 30 June 2020
Latest date for final clearance meeting with Chief Financial Officer	TBC
Issue of Letter of Representation (ISA 580) and proposed Independent Auditor's Report	By 30 September 2020
Agreement of audited unsigned annual report and accounts	By 30 September 2020
Independent Auditor's Report signed	By 30 September 2020
Issue of Annual Audit Report including ISA 260 to those charged with governance	By 30 September 2020

Internal audit

22. Internal audit is provided by East Lothian Council and is overseen by their Internal Audit Manager who is also the Chief Internal Auditor for the EL IJB. Internal audit work is also carried out by the NHS Lothian Internal Audit team. As part of our planning process we carry out an annual assessment of the East Lothian Council internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610

requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

23. We will report any significant findings to management on a timely basis.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

25. We take audit assurance from the external auditors of East Lothian Council over the ledger information used to prepare the EL IJB's annual accounts. We will not place formal reliance on the work of internal audit to reduce our financial statements audit testing, but we will take account of all their work to inform our wider dimension audit responsibilities.

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

27. In the local government sector, which includes integration joint boards, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

28. 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) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how the EL IJB has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

30. 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. We will review, conclude and report on:

- whether the EL IJB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the EL IJB can demonstrate:

- value for money in its use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving.

Best value

32. Integration Joint Boards have a statutory duty to make arrangements to secure best value. As part of our 2019/20 audit we will review and report on how the IJB demonstrates that it is meeting its best value and the IJB's arrangements for doing this.

Independence and objectivity

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

34. The engagement lead (i.e. appointed auditor) for the EL IJB is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the EL IJB.

Quality control

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

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

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

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