

# Argyll & Bute Integration Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

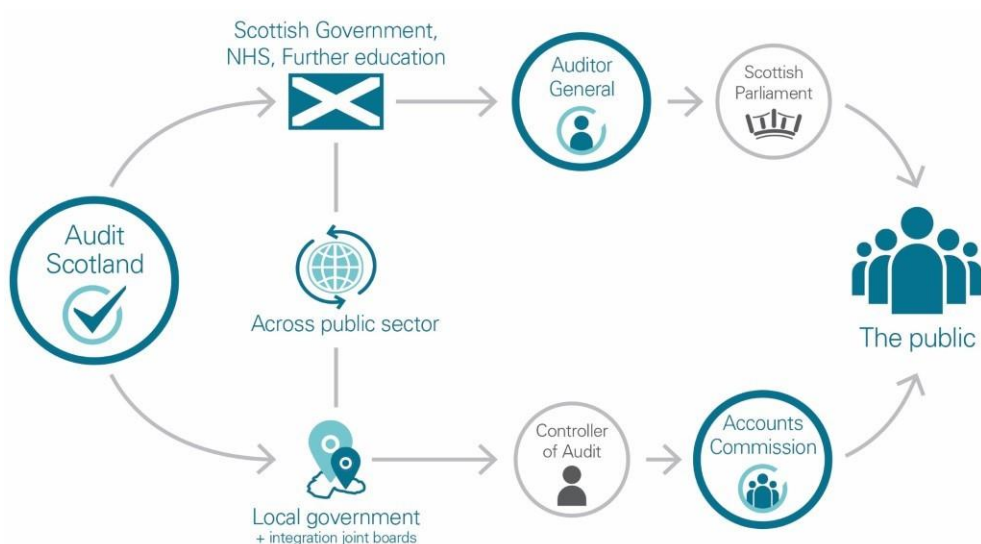
Prepared for Argyll & Bute Integration Joint Board

March 2021

## 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.

# Contents

---

Risks and planned work	4
Audit scope and timing	8

---

# 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. It also covers conclusions and judgement on our wider scope responsibilities - financial management, financial sustainability, governance and transparency and value for money – as appropriate.

**2.** The public health crisis caused by the ongoing Covid-19 pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**3.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before COVID-19.

**4.** The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


**5.** We aim to add value to Argyll & Bute Integration Joint Board (the 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 IJB promote improved standards of governance, better management and decision making and more effective use of resources. For example, through participation in the review of the effectiveness of the IJB's Audit and Risk Committee.


## Audit risks

**6.** 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 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](#) overleaf.

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risk</b>		
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journals including authorisation and approval.</p> <p>Review of accounting estimates.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of cut-off procedures at the year-end to confirm that income and expenditure are accounted for in the correct financial year.</p>
<b>Wider dimension risks</b>		
<p><b>2. Financial management</b></p> <p>The forecast outturn position (as at 28 February 2021) for 2020/21 is a predicted underspend of <b>£2.016m</b>. This consists of a Social Work underspend of <b>£295k</b> and a Health underspend of <b>£1.721m</b>.</p> <p>While the IJB is projecting to deliver an underspend for the first time in four years, there is still considerable uncertainty around the ongoing financial impact of the pandemic.</p> <p>A savings plan is in place which is monitored by the Board. As at February 2021, <b>£6.318m</b> (61%) of the 2021/22 savings target of <b>£10.386</b> has been delivered. The projected savings for 2020/21 are <b>£7,661</b> (74%).</p>	<p>The forecast outturn position has improved considerably due to the recognition of funding from the Scottish Government for £2.228m for Social Work.</p> <p>The savings plan is being monitored monthly by the Finance &amp; Policy Committee. There is a schedule of four-weekly meetings for four workstreams which review progress.</p>	<p>Review and assess progress in delivering the Financial Recovery Plan.</p> <p>Assess the impact of grip and control measures in improving the financial position.</p> <p>Monitor savings plans to assess progress in delivering savings.</p>
<p><b>3. Financial sustainability</b></p> <p>The IJB has a medium-term financial plan in place and the projected budget gap for the three-year period of 2021/22 to 2023/24 is <b>£9.446m</b> with a gap of <b>£4.134m</b> occurring in 2021/22 under mid-range scenario planning.</p> <p>As per Audit Scotland's <a href="#">Local Government in Scotland Financial Overview 2019/20</a>, the impacts of Covid-19 could be significant and</p>	<p>Estimated Covid-19 costs have been submitted to the Scottish Government by the IJB and there is an expectation that these costs will be covered.</p> <p>As part of the funding for 2021/22, the outstanding debt to NHS Highland is to be written off and there is an expected uplift in</p>	<p>Continue to assess and review financial plans to ensure that due consideration is given to the impact of Covid-19 on financial planning.</p>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>the medium-term financial plans will need to be revised to reflect this.</p>	<p>funding from the Health Board.</p> <p>Updated budget outlooks and financial risks are produced for every meeting of the IJB.</p>	
<p><b>4. Governance - changes to key officers</b></p> <p>The Chief Officer and Chief Financial Officer are leaving the IJB in March and <b>June</b> of 2021, respectively. There is a risk that the transformational changes may lose momentum with the change in key officers.</p> <p>Maintaining the momentum is crucial for the IJB as part of its commitment to continuous improvement.</p>	<p>The Chief Officer post is being interviewed for in late March. In the meantime, the Depute Chief Officer, will act up on an interim basis until the new appointee starts to ensure a smooth handover.</p> <p>The Service Transformation Board (STB) was re-established in February 2021 and meets monthly. Its responsibilities include approving transformational plan and monitoring progress in implementation. The STB reports to the Finance &amp; Policy Committee which in turn reports to the IJB Board.</p> <p>A Chief Financial Officer will be in place to produce the unaudited accounts for 2020/21 for the Audit &amp; Risk Committee and year-end outturn reports to the IJB. This will allow the new appointee to concentrate on 2021/22 onwards.</p>	<p>Assess progress in recruiting and onboarding Chief Officer and Chief Financial Officer.</p> <p>Review and consider matters reported to the Finance &amp; Policy Committee and the Board, relating to transformation and delivery of savings.</p>

Source: Audit Scotland

**7.** As set out in ISA (UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. The opportunity and incentive to manipulate income in the public sector is much lower than in the private sector. Moreover, the only source of income for the IJB is funding from the partner bodies (Argyll & Bute Council and NHS Highland) and there is limited scope for manipulation. We have, therefore, rebutted the presumed risk of fraud over income in accordance with ISA 240.

**8.** In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. The IJB does not directly incur expenditure or employ staff (other than appointing the Chief Officer and Chief Financial Officer). All expenditure for the IJB is incurred and processed by its partner bodies. Details of actual expenditure are provided from the partner bodies and there is limited scope for the IJB to manipulate this. We have, therefore, rebutted the presumed risk of fraud over expenditure.

## Reporting arrangements

**9.** The statutory deadline for certifying the annual accounts has been pushed back to 30 November 2021. There is still considerable uncertainty around the impact of Covid-19 and therefore, our approach when necessary will be flexible. Whilst we will do our best to achieve the statutory deadlines, we are unable to make any definitive commitments to meeting them at this early stage of the audit. We will continue our ongoing and regular dialogue with finance staff to ensure they, and we, remain sighted on these challenges.

**10.** The main outputs from our audit work in 2020/21 will consist of the following:

- An independent auditor's report to the Integrated Joint Board and the Accounts Commission setting out our opinions on the annual accounts, and
- An Annual Audit Report to the Accountable Officer and Auditor General for Scotland containing observations and recommendations on significant matters which have arisen during the audit.

**11.** Audit reporting is the visible output for the annual audit. Our Annual Audit Report and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Audit fee

**12.** The agreed audit fee for the 2020/21 audit of the IJB is £27,330 (£26,560 in 2019/20) an increase of approximately 3%. 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.

## Responsibilities

### Audit Committee and Chief Officer

**13.** 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.

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

### Appointed auditor

**15.** Our responsibilities as independent auditors are established by the 1973 Act for local government, the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

# Audit scope

## Annual accounts

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

- understanding the business of the 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 the IJB 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.

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

- give a true and fair view, in accordance with applicable law and the 2020/21 Code, of the state of affairs of the IJB as 31 March 2021 and its income and expenditure for the year then ended; have been properly prepared in accordance with the financial reporting framework;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted, and adapted by the 2020/21 Code: and
- 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.

## Statutory other information in the annual accounts

**19.** 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 compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

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

## Materiality

**21.** 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. We assess materiality at different levels as set out in [Exhibit 3](#) overleaf.



characteristics



responsibilities



principal activities



risks



governance arrangements



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2021 based on the latest audited accounts for 2019/20.	£5.9 million
<b>Performance materiality</b> – 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 70% of planning materiality.	£4.1 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This is based on our professional judgement.	£250 thousand

Source: Audit Scotland

## Internal audit

**22.** Internal audit is provided by Azets (formerly known as Scott-Moncrieff). A central review of Azets is carried out by one of our other audit teams and we rely on their findings. The review covers amongst other things:

- 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 rely on the assurances obtained from this review for our own planning processes.

### Using the work of internal audit

**24.** International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication. We plan to consider the work to be carried out in support of the Annual Governance Statement that will be included in the 2020/21 Annual Accounts.

## Audit dimensions

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

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

**26.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are financial sustainability, financial management, governance and accountability and value for money which are summarised below:

- **Financial sustainability** – As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability.
- **Financial management** - Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** - 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.
- **Value for money** - Value for money refers to using resources effectively and continually improving services.

**27.** Our focus in 2020/21 will be on financial sustainability and governance arrangements although we will continue to monitor, where applicable, progress in implementing any prior year actions and the impact of Covid-19 relating to our wider dimensions' responsibilities.

### Independence and objectivity

**28.** 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.

**29.** The engagement lead (i.e. appointed auditor) for the IJB is John Cornett, 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 Argyll & Bute Integration Joint Board.

## Quality control

**30.** International Standard on Quality Control (UK) 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.

**31.** 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.

**32.** 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.

# Argyll & Bute Integration Joint Board

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)