

Moray Integration Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Moray 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.

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Risks and planned work

Introduction

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.

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

Impact of COVID-19

3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant effect on every aspect of Scottish society. Health and social care services have been front and centre of the public service response to the pandemic, necessitating changes to the way services are provided in many cases. The IJB is incurring additional costs in dealing with the pandemic. The delivery of planned savings from redesign and transformation initiatives has been delayed and the extent of additional funding available to meet additional costs and historic shortfalls is not clear.

4. In Audit Scotland we continue to manage the impacts of COVID-19 on the audit process and expect that 2020/21 will be more challenging than 2019/20, as the extended reporting timescales last year affect our current year resource position. This includes a bid for additional funding to the Scottish Commission for Public Audit, reflecting the increased costs and reduced productivity impacts on Audit Scotland and its partner firms from COVID-19. This is intended to protect local audit fees. 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 through our external audit of Moray Integration Joint Board (the IJB) 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 promote improved standards of governance, better management, and decision-making and more effective use of resources.

Audit risks

6. Based on our discussions with staff, attendance at committee meetings and review of supporting information we have identified the following significant audit risks for the IJB. We have categorised these audit 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

2020/21 significant audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of 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>Agreement of balances and transactions to Moray Council and NHS Grampian financial reports / ledger / correspondence.</p> <p>Service auditor assurances will be obtained from the auditors of Moray Council and NHS Grampian over the completeness, accuracy and allocation of income and expenditure. These may be affected by audit timetables, which are yet to be agreed with the partners.</p> <p>Review of year-end adjustments and journals.</p> <p>On-going review of financial position.</p>
Wider dimension risks		
<p>2 Financial management</p> <p>The IJB set a balanced budget for 2020/21. Although current projections are that the IJB will achieve a small surplus in 2020/21, the delivery of planned savings has been impacted by the disruption to operations caused by COVID-19.</p> <p>There is a risk that areas of recurrent overspend are masked by additional funding received in response to the pandemic.</p>	<p>In light of the COVID-19 disruption, the 2020/21 savings programme has been revisited as part of the 2021/22 budget setting process.</p> <p>Emergence from the pandemic will demonstrate alternative ways of working, the full budgetary impact is not yet known, and continuous review will be required through 2021/22 and beyond.</p>	<p>Review the budget setting process for 2021/22.</p> <p>Review financial monitoring reports.</p> <p>Establish the funding and cost impacts of COVID-19 on 2020/21 outturn.</p>
<p>3 Financial sustainability</p> <p>The medium-term financial plan's savings projections for future years require to be updated to reflect the impact of COVID-19.</p> <p>There is a risk that the redesign and transformation programme does not generate the savings required to ensure services provided are financially sustainable.</p>	<p>The medium-term financial plan will be updated during 2021/22 to reflect the impact of the pandemic.</p> <p>There is an acceptance that redesign, and transformation are likely to look different as we remobilise. Homefirst is the delivery vehicle being utilised to drive forward change. The pace and</p>	<p>Review the updated medium-term financial strategy.</p> <p>Review the robustness of future savings plans.</p> <p>Review progress with delivery of the transformation programme.</p>

Audit Risk	Source of assurance	Planned audit work
	scale will be further defined in the coming months.	
<p>4 Value for money</p> <p>The IJB recognises the need to <i>‘develop better processes to evaluate and measure outcomes in line with Best Value’</i>.</p> <p>Without such a process, there is a risk that the IJB cannot demonstrate it has secured value for money and continuous improvement in the use of its resources.</p>	<p>The Ministerial Strategic Group Improvement Action Plan remains an outstanding action on the IJB agenda. The plan is to revisit early in 2021/22.</p> <p>Awareness of the national work in relation to BV auditing will be maintained.</p>	<p>Review the IJB’s formal assessment of Best Value.</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. 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. We have rebutted these presumed risks in 2020/21 for Moray Integration Joint Board. In practice, the opportunity and incentive to manipulate income in the public sector is much lower than in the private sector and the IJB relies on its partner organisations systems to authorise, process and record transactions. The IJB does not have any assets, nor does it directly incur expenditure, make cash transactions, or employ staff (other than appointing the Chief Officer and Chief Financial Officer). All funding and expenditure for the IJB is incurred by partner bodies and processed in their accounts. Satisfactory arrangements are in place in partner bodies to identify this income and expenditure and report this to the IJB.

Reporting arrangements

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

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

10. We will provide an independent auditor’s report to the IJB, and Accounts Commission setting out our opinions on the annual accounts. We will also provide the Chief Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

11. The management of the unique and continuing challenges presented by COVID-19 means that we need to continue to take into consideration that audits are taking longer, and we are starting the current year’s audit later. This has an impact on the proposed reporting timescales, based on resources available and prioritisation decisions. This is reflected in the timetables below, which we will endeavour to meet, whilst recognising that greater uncertainty exists during the COVID-19 pandemic.

Exhibit 2

2020/21 audit outputs

Audit Output	Target date	Committee Date
Annual Audit Report	11 November 2021	25 November 2021
Independent Auditor's Report signed	25 November 2021	N/A

Source: Audit Scotland

Audit fee

12. The agreed audit fee for the 2020/21 audit of the IJB is £27,330 (2019/20 £26,560). In determining the audit fee, we have taken account of audit risks identified, 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, with a complete working papers package on 30 June 2021.

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Integration Joint Board and Chief Financial Officer

14. 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.

15. The audit of the annual accounts does not relieve management or the Integration Joint Board, as those charged with governance, of their responsibilities.

Appointed auditor

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

17. 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 and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

18. 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 IJB's business and the associated risks which could impact on the financial statements
- assessing the key systems of internal control at the IJB and its partner bodies, and establishing how weaknesses in these systems could impact on the IJB's financial statements
- identifying major partner body transaction streams and understanding how they impact on the IJB's financial statements
- assessing the risks of material misstatement in the IJB financial statements
- determining the nature, timing, and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the IJB financial statements are free of material misstatement.

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

- give a true and fair view of the state of affairs of the IJB as at 31 March 2021 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with the financial reporting framework.

Statutory other information in the annual accounts

20. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the audited part of 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.

21. In addition, we 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

22. 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.

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



characteristics



responsibilities



principal activities



risks



governance arrangements

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 gross expenditure based on the audited 2019/20 financial statements.	£1.4 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 60% of planning materiality.	£820,000
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 5% of planning materiality.	£68,000

Source: Audit Scotland

Timetable

24. To support the efficient use of resources it is critical that a timetable is agreed with us for the preparation and audit of the annual report and accounts. [Exhibit 4](#) sets out the agreed timetable. We will endeavour to meet the timescales set out below but recognise that this may not be possible due to uncertainty resulting from the COVID-19 pandemic

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	24 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for final clearance meeting with Chief Financial Officer	4 November 2021
Agreement of audited unsigned annual accounts	11 November 2021
Issue of Annual Audit report including ISA260 report to those charged with governance	
IJB meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	25 November 2021
Independent auditor's report signed	25 November 2021

Internal audit

25. Internal audit is provided by Moray Council's internal audit section. As part of our planning process the external auditors for each partner body carried out an assessment of the internal audit functions and concluded that they operate in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

26. International 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 to avoid duplication. We do not plan to place any formal reliance on the work of internal audit in 2020/21 as we intend to use a substantive approach for the audit of the IJB's financial statements. We will consider internal audit's work on the annual governance statement as part of our wider dimension audit responsibilities.

Wider audit dimensions

27. In addition to our audit of the financial statements we undertaken work on the wider audit dimensions in line with the Code of Audit Practice. The 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

Financial management

28. 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 systems in communicating accurate and timely financial performance can be demonstrated
- how the 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.

Financial sustainability

29. 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.

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 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 IJB can provide evidence that it is demonstrating value for money in the use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Best Value

32. Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on how the IJB demonstrates that it has met its best value responsibilities.

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 Moray Integration Joint Board is Brian Howarth, 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 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.

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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