

# Western Isles Integration Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

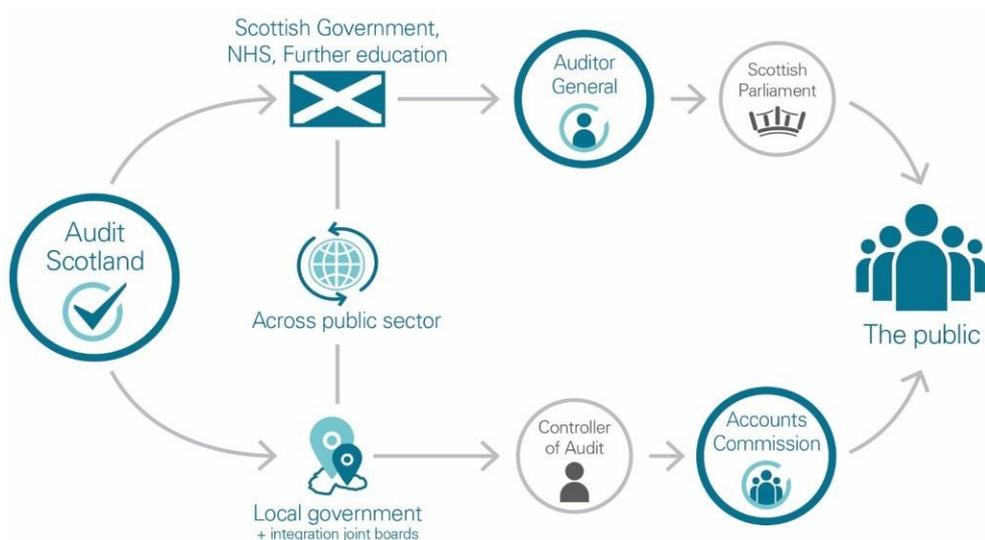
Prepared for Western Isles Integration Joint Board (Cùram is Slàinte nan Eilean Siar)

April 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

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- 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.
- 3.** The public health crisis caused by the coronavirus disease 2019 (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.
- 4.** 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. 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 the Western Isles 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 Western Isles Integration Joint Board 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 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](#).

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</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>	<ul style="list-style-type: none"> <li>• Agreement of balances and transactions to Comhairle Nan Eilean Siar and NHS Western Isles financial reports / ledger / correspondence.</li> <li>• Service auditor assurances will be obtained from the auditors of Comhairle Nan Eilean Siar and NHS Western Isles. These may be affected by audit timetables, which are yet to be agreed with the partners.</li> <li>• Review of year-end adjustments and journals.</li> <li>• On-going review of financial position.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>2 Financial Sustainability</b></p> <p><b>Medium-Term Financial Planning</b></p> <p>Audit Scotland's Local Government in Scotland Financial Overview 2019/20 has highlighted that the impacts of COVID-19 could be significant and that medium-term financial plans will need to be revised to reflect this. The medium-term financial plan agreed by the IJB in March 2020 will require revision to account for the scale of the financial challenge posed by COVID-19.</p> <p>In addition, the proposed savings may not be achieved in their entirety as some identified savings have been identified as high-risk savings. The IJB budget setting process will require to consider and look to address any anticipated funding gaps for future years.</p> <p>There is a risk that financial plans do not take account of the significant impact of COVID-19 on financial sustainability and that the IJB does not generate the savings required to ensure services provided are financially sustainable.</p>	<p>Five-year COVID-19 plan has been submitted to the Scottish Government using supplied percentages per year.</p> <p>Early indications are that funding for COVID-19 will be forthcoming and the one-year plan was undertaken on core budgets only. The IJB were advised not to include projections of COVID-19 expenditure</p> <p>A core budget three-year plan was drafted to allow officers to concentrate on areas of high risk. Again, this does not include COVID-19 expenditure and the impact on staff resources to undertake service redesign.</p>	<ul style="list-style-type: none"> <li>• Review the updated medium-term financial strategy.</li> <li>• Consider the robustness of future savings plans.</li> <li>• Consider the 2021/22 budget and plans to address any funding gap.</li> <li>• Monitor the IJB's achievement of planned transformation and cost saving projects.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>3 Financial Management</b></p> <p><b>Impact of COVID-19</b></p> <p>The IJB set a balanced budget for 2020/21 and per the February financial monitoring update, the IJB were projecting an overspend of £0.1m. However, late COVID-19 funding that the Board will be unable to spend in-year may mean that the Board break-even or report a year end surplus.</p> <p>In addition, 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>The IJB has an underlying deficit due to four years of flat cash funding. Social Care funding received in 20/21 helped elevate some of the underlying funding issues in year. Without permanent increases in funding, it puts the onus on the IJB to make non-recurring savings to break-even. The pandemic has shown the Board (when staff shielded or were isolating) that there are only so many resource savings that can be made before services cannot be delivered.</p>	<ul style="list-style-type: none"> <li>• Establish the funding and cost impacts of COVID-19 on 2020/21 outturn.</li> <li>• Consider areas of overspend in 2020/21 to identify the underlying reasons and management actions to address these.</li> <li>• Review financial monitoring reports.</li> </ul>
<p><b>4 Governance and Transparency</b></p> <p><b>19/20 Audit Recommendations</b></p> <p>We reported a number of significant governance issues in our 2019/20 Annual Audit Report.</p> <ul style="list-style-type: none"> <li>• A number of Board vacancies exist and although progress is being made to appoint representatives to the IJB Board, there is a risk of a lack of independent oversight and constructive challenge on Board matters.</li> <li>• Strategic planning has stalled in the absence of a Chief Officer for much of 2020 and a planned refresh of the Risk Management Strategy and Best Value annual self-assessment were not completed.</li> <li>• Plans to implement an integrated workforce plan have yet to be progressed, and a revised Integration Scheme has also been delayed by the COVID-19 global pandemic.</li> </ul> <p>There is a risk that governance arrangements are inadequate and that these are not addressed in 2020/21.</p>	<p>Four new non-executives were appointed onto the Health Board early April 2021. A decision will be made shortly on which of these non-executives will be on the IJB.</p> <p>The Chief Officer has now been appointed. It is recognised that due to the ongoing pandemic and the pressures on staff resources, it will be summer before the outstanding strategic planning and refresh of the Risk Management Strategy is undertaken.</p>	<ul style="list-style-type: none"> <li>• Assess progress in delivering a revised Integration Scheme in accordance with revised timescales.</li> <li>• Establish whether a Best value self-assessment has been undertaken to demonstrate areas of good practice and identify areas for improvement.</li> <li>• Assess the Board's progress in delivering a longer-term Strategic Plan and Risk Management Strategy.</li> <li>• Assess progress in filling Board vacancies.</li> </ul>

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 Western Isles 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 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](http://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 management 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 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 Plan	30 April 2021	TBC April 2021
Independent Auditor's Report	30 November 2021	TBC November 2021
Annual Audit Report	30 November 2021	TBC November 2021

Source: Audit Scotland

## Audit fee

**12.** The proposed audit fee for the 2020/21 audit of the IJB is £27,330 (£26,560 2019/20). In determining the audit fee, we have taken account of the 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 business of the IJB 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 in relation to the IJB activities and understanding how they impact the IJB 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 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
<b>Planning materiality</b> – 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.	£0.75 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 60% of planning materiality.	£0.45 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 has been calculated at 3% of planning materiality and rounded to a memorable metric.	£20,000

Source: Audit Scotland

## Timetable

**24.** 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](#). 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 report and 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
Issue of draft annual audit report for clearance	12 November 2021
Latest date for final clearance meeting with Chief Financial Officer	12 November 2021
Agreement of audited unsigned annual report and accounts Issue of annual audit report, letter of representation and proposed independent auditor's report	TBC November 2021
Issue of Annual Audit Report to those charged with governance	TBC November 2021
Independent auditor's report signed	TBC November 2021

## Internal audit

**25.** Internal audit is provided by Comhairle nan Eilean Siar. 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 plan to 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 or effectively.

## Audit dimensions

**27.** 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

**28.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

## 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 systems in communicating accurate and timely financial performance can be demonstrated

- how 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

**30.** 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

**31.** 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

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

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

### Best Value

**33.** Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on these arrangements.

### Independence and objectivity

**34.** 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.

**35.** The engagement lead (i.e. appointed auditor) for Western Isles 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

**36.** International Standard on Quality Control 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.

**37.** 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.

**38.** 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.

# Western Isles Integration Joint Board

## Annual Audit Plan 2020/21

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