

Argyll & Bute Integration Joint Board

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Argyll & Bute Integration Joint Board
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Argyll & Integration Joint Board. The main elements of our work include:

- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Management Commentary, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our 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. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to Argyll & Bute Integration Joint Board 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 will help Argyll & Bute Integration Joint Board promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and Argyll & Bute Integration Joint Board

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Argyll & Bute Integration Joint Board. Key responsibilities are summarised below.

Auditor responsibilities

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

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and 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.

Argyll & Bute Integration Joint Board responsibilities

8. Argyll & Bute Integration Joint Board is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Argyll & Bute Integration Joint Board has 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Argyll & Bute Integration Joint Board are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Argyll & Integration Joint Board

Materiality	Amount
Planning materiality – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been based on the audited financial statements for 2020/21.	£6.0 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 assessed performance materiality at 70% of planning materiality.	£4.2 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.	£250 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Argyll & Integration Joint Board, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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"> • Agreement of balances and transactions to Argyll & Bute Council and NHS Highland financial reports / ledger / correspondence. • Service auditor assurances will be obtained from the auditors of Argyll & Bute Council and NHS Highland in line with the 2021/22 Integration Joint Boards Protocol for Auditor Assurances.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Argyll & Bute Integration Joint Board as the only source of income for the Integration Joint Board is funding from the partner bodies (Argyll & Bute Council and NHS Highland) and there is limited scope for manipulation.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Argyll & Integration Joint Board as the Integration Joint Board does not directly incur expenditure or employ staff (other than appointing the Chief Officer and Chief Financial Officer). All expenditure for the Integration Joint Board 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 Integration Joint Board to manipulate this.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Audit risk assessment process

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

19. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

20. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

21. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **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).

- **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.

Best Value

22. The Best Value work planned this year will focus on Argyll & Bute Integration Joint Board’s own self-evaluation work for achieving Best Value. Our findings will be reported through our Annual Audit Report.

Audit dimension risks

23. We have identified audit risks in the areas set out in [Exhibit 3](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 3

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>The Integration Joint Board has a medium-term financial plan in place and the projected budget gap for the three-year period of 2022/23 to 2024/25 is £19.5 million with a gap of £4.8 million occurring in 2022/23 under mid-range scenario planning.</p> <p>In the shorter term, as at 30 November 2021, the Integration Joint Board is forecasting an overspend of £0.280 million for 2021/22, however does not yet take into account all of the additional</p>	<p>The HSCP are forecasting a small underspend for 2022/23 along with a significant early repayment of debt to Argyll and Bute Council. Additionally, the Scottish Government have allocated increased funding. As a consequence, the HSCP expects to be in a more favourable position at the end of the year with reduced debt and increased reserves. It has also been able to reduce the intended scale of its saving programme for 2022/23.</p> <p>In respect of longer-term planning, the HSCP is</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>

Description of risk	Sources of assurance	Planned audit response
<p>funding allocations announced in late 2021.</p> <p>There is a risk that the Integration Joint Board continues to fail to operate within agreed/planned budgets and fails to meet savings targets on a recurring basis.</p>	<p>looking to update its plans once the Scottish Government Spending Review is published and there is greater clarity in respect of the National Care Service. Longer term plans are expected to have an increased focus on investment in infrastructure.</p>	

Source: Audit Scotland

24. Our 2020/21 Annual Audit Report identified a number of wider dimension issues. As part of our 2021/22 audit work, we will follow-up on the recommendations made in the prior year annual audit report and assess the Integration Joint Board's progress in addressing them.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

26. 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.

27. We will provide an independent auditor's report to Argyll & Bute Integration Joint Board, the Scottish Parliament and Accounts Commission setting out our opinions on the annual report and accounts. We will provide the Argyll & Bute Integration Joint Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

28. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

29. [Exhibit 4](#) outlines the target dates for our audit outputs. Due to pressures associated with the Covid-19 pandemic we have agreed an audit timetable consistent with the prior year. This means that we will not meet the Audit Planning Guidance deadline of 31 October 2022.

Exhibit 4

2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2022	12/04/2022
Independent Auditor's Report	31/10/2022	To be confirmed
Annual Audit Report	31/10/2022	To be confirmed

Source: Audit Scotland

Audit fee

30. The agreed audit fee for the 2021/22 audit of Argyll & Bute Integration Joint Board is £27,960 (2020/21: £27,330). In determining the audit fee, we have taken account of the risk exposure of the Argyll & Bute Integration Joint Board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

31. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

32. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit across a range of work including Workforce Planning and Care Programme Approach.

Independence and objectivity

33. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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 Argyll & Bute Integration Joint Board 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

35. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

Argyll & Bute Integration Joint Board

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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