



# Edinburgh Integration Joint Board

External Audit Annual Plan

2021/22

February 2022



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# Introduction



## Introduction

1. This document summarises the work plan for our 2021/22 external audit of the Edinburgh Integration Joint Board (“the IJB”).
2. The core elements of our work include audits of:
  - the 2021/22 annual accounts and related matters;
  - the IJB’s arrangements for governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland.

to 2021/22<sup>1</sup>. This document reflects the audit plan for 2021/22 and summarises;

- the responsibilities of Azets as the external auditor;
- our audit strategy;
- our planned audit work and how we will approach it;
- our proposed audit outputs and timetable; and
- background to Azets and the audit team.

## Audit appointment

3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission’s work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out his statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Azets as external auditor of the IJB for the six year period 2016/17

## Auditor independence

6. International Standards on Auditing in the UK require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we comply with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, we are independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

<sup>1</sup> In October 2020, the Accounts Commission extended our audit appointment for one year through to the audit of the 2021/22 financial year to provide

continuity and stability in the current challenging environment.

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the IJB through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

## Openness and transparency

11. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Respective responsibilities of the auditor and the IJB



## Respective responsibilities of the auditor and the IJB

### Auditor responsibilities

#### Code of Audit Practice

12. The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

#### Our responsibilities

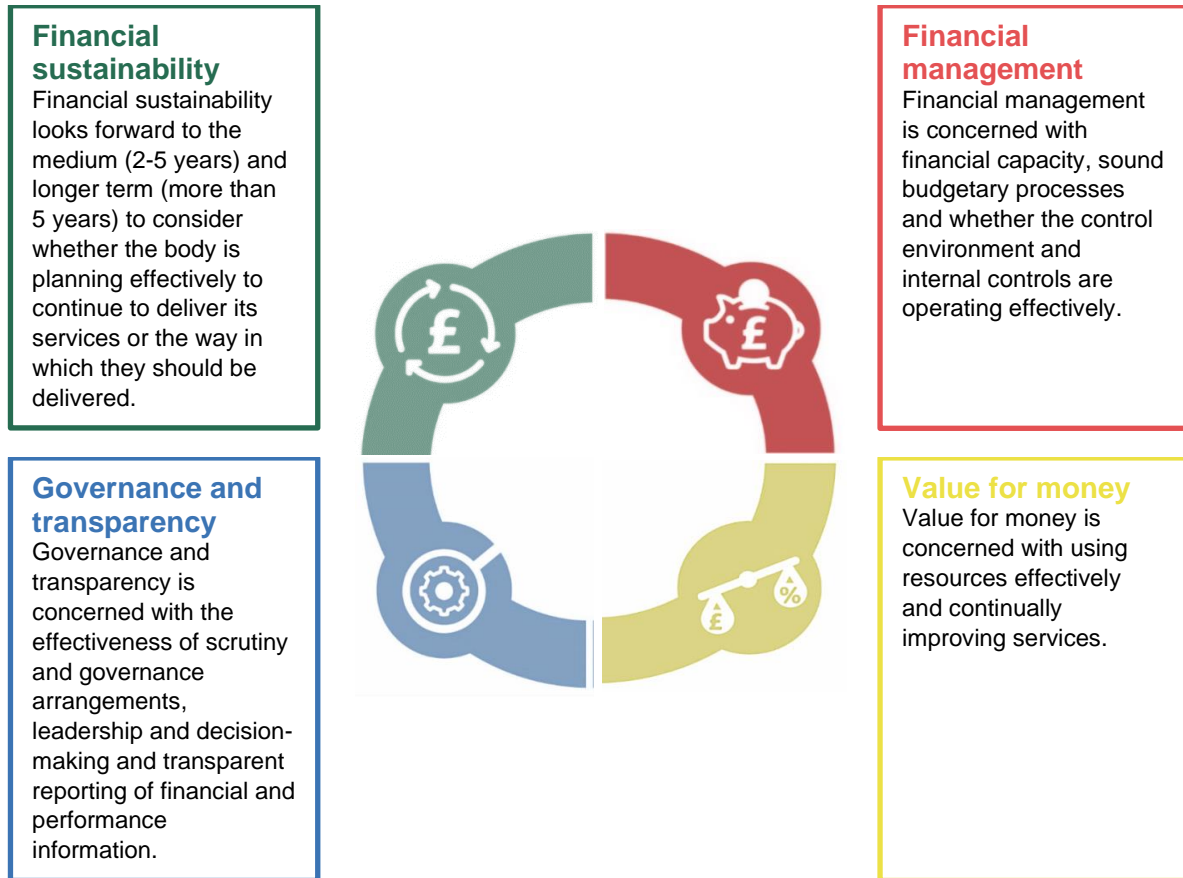
13. Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:
- undertake statutory duties, and comply with professional engagement and ethical standards
  - provide an opinion on the financial statements and the regularity of transactions
  - review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
  - notify the Controller of Audit when circumstances indicate that a statutory report may be required
  - demonstrate compliance with the wider scope of public audit.
14. Weaknesses or risks identified by the audit are only those which have come to our attention during our normal audit work in accordance with the Code and may not be all that exist. Communication by Azets of matters

arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

#### Wider scope audit work

15. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
16. The Code of Audit Practice sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

### Exhibit 1: Audit dimensions within the Code of Audit Practice



17. We have concluded that application of the full wider scope is appropriate at the IJB.

#### Best Value

18. Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.
19. Our work in respect of the IJB's best value arrangements will be integrated into our audit approach, including our work on the wider scope audit dimensions as set out in the wider scope section of this plan.

#### Strategic audit priorities for local government

20. The Accounts Commission has set the following five strategic audit priorities that it expects auditors to consider in all work across local government:
- Having clear priorities with a focus on outcomes, supported by effective long term planning.
  - Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
  - Ensuring that members and officers have the right knowledge, skills and support to design,



- develop and deliver effective services in the future.
- Empowering local communities and involving them in the design and delivery of local services and planning for their local areas.
  - Reporting the organisation's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
21. Our consideration of these priorities will be integrated into our 2021/22 audit work. The extent to which we will report on these will be dependent

of the findings of our work as it relates to the four dimensions referred to above and is considered in section 5 of this plan.

## IJB responsibilities

22. The IJB has 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. The IJB's responsibilities are summarised in Exhibit 2.

## Exhibit 2: IJB responsibilities

Area	IJB's responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The IJB has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of its financial position and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements</li> </ul>

Area	IJB's responsibilities
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>The IJB is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>The IJB is responsible for ensuring that financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The IJB is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>The IJB is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance</p>	<p>The IJB is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these</p>

Area	IJB's responsibilities
<p>arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The IJB is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The IJB has a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

# Audit strategy

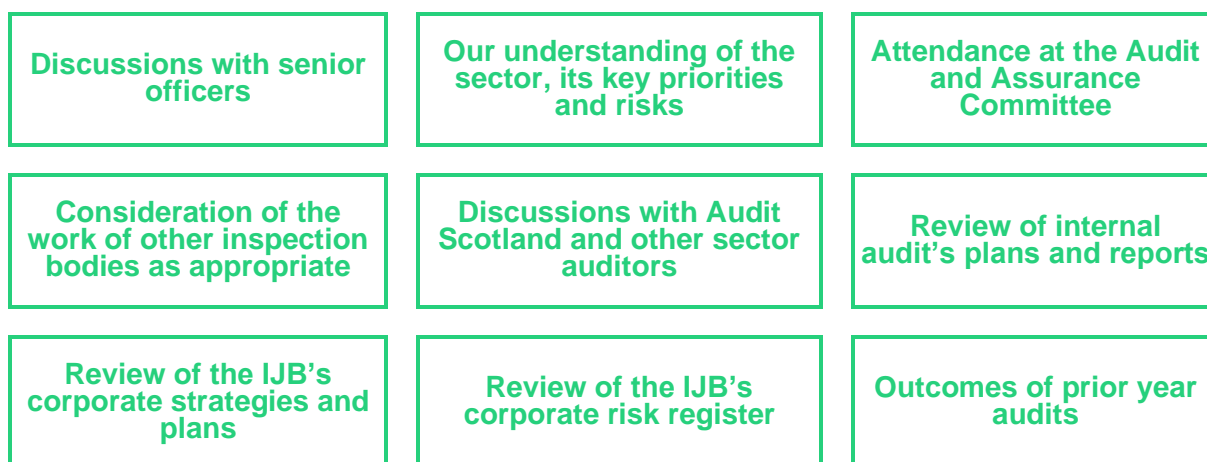


## Audit strategy

### Risk-based audit approach

23. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that

apply to the IJB. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



24. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

### Communication with those charged with governance

25. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the IJB that these communications will be through the Audit and Assurance Committee. The annual accounts and our annual report will also be reported to the Board.

### Professional standards and guidance

26. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK (ISAs (UK))), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Partnership working

27. We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

## Audit Scotland

28. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.
29. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the IJB's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the IJB uses the national performance reports as a means to help improve performance at the local level.
30. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.

## Internal Audit

31. We will consider the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the IJB is used as efficiently and effectively as possible.

## Shared systems and functions

32. The IJB relies on financial systems operating in the City of Edinburgh Council and NHS Lothian to produce its financial reports. We will seek assurances on the operation of these two systems from the Azets audit of these two bodies.

## COVID-19 – impact on our 2021/22 audit strategy

33. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
34. We appreciate that organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

## Remote working

35. As we do not know when the current restrictions will end, we are planning to carry out our 2021/22 audit remotely. As in 2020/21 we have the following arrangements in place:
  - All of our people have the equipment, technology and systems to allow them to work remotely, including secure access

to all necessary data and information.

- All of our staff are fully contactable by email, phone call and video-conferencing.
  - All meetings are now held over Skype, Microsoft Teams or by telephone.
  - We are keeping all of our staff fully up to date with the latest government guidance in order to keep everyone as safe as possible.
36. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

### Secure sharing of information

37. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

### Audit evidence

38. Working remotely, does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means (for example, face to face meetings or access to systems and client premises).
39. Where required, we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.
40. We will employ greater use of technology to examine evidence, but only where we have assessed both

the sufficiency and appropriateness of the audit evidence produced.

### Regular contact

41. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Audit reporting

42. It may be that the current circumstances lead to more modified opinions in auditor's reports, than would typically have been the case in previous years.
43. Where necessary, we will engage with the Audit and Assurance Committee to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, which could mitigate any modification either fully or in part.
44. Sufficient time should be set aside by the Audit and Assurance Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
45. Audit Scotland uses a system for electronic signatures (DocuSign) that it recommends all bodies use for signing annual accounts. Annual accounts signed electronically are acceptable for laying in Parliament.
46. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any

device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high quality PDF version of the accounts.

47. We again propose using DocuSign in 2021/22.



# Annual report and accounts



## Annual report and accounts

### Introduction

48. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the IJB's annual accounts.
49. The annual accounts comprise the financial statements, the management commentary, remuneration report, governance statement and statement of responsibilities.
54. We will take cognisance of any relevant internal audit reviews of systems and controls.
55. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under increased pressure leading to some internal controls being suspended or relaxed;
  - Procurement fraud or normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
  - Weakened governance arrangements;
  - Admin and finance staff being redeployed to operational areas; and
  - Staff working remotely may pose potential security risks, e.g. when using personal devices and/or using removable devices to download data.

### Approach to audit of the financial statements

50. Our opinion on the financial statements will be based on:

#### Risk-based audit planning

51. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risks relating to each of the key systems on which the financial statements will be based.

#### An audit of key systems and internal controls

52. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
53. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and the IJB's own policies and procedures.
56. We will update the risk assessment following our evaluation of systems and controls, considering the impact the pandemic has had on the IJB's accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.
57. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to the Audit and Assurance Committee significant deficiencies in

internal controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

#### Prevention and detection of fraud or error

58. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the financial statements resulting from fraud or error.
59. Reasonable assurance is a high level of assurance, but it cannot be guaranteed that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
60. We will assess the susceptibility of the IJB's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
  - making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
  - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
61. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be

relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

#### Laws and regulations

62. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the financial statements. Our audit procedures include the following:
  - Identification of the laws and regulations applicable to the IJB through enquiries with management, and from our knowledge and experience of the IJB and the sector;
  - A focus on specific laws and regulations which we consider may have a direct material effect on the financial statements or the operations of the IJB;
  - Reviewing minutes of relevant meetings;
  - Enquiring of management and IJB legal representatives the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
63. There are however inherent limitations in our audit procedures described above. The more removed that the laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

#### A final audit of the financial statements

64. During our final audit we will test and review the material amounts and disclosures in the financial statements.



The extent of testing will be based on our risk assessment.

- 65. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code).

**Independent auditor’s report**

- 66. Our opinion on whether the financial statements give a true and fair view of the financial position and net expenditure and of the regularity of transactions will be set out in our independent auditor’s report which will be included in the annual accounts.
- 67. We also provide an opinion on the audited part of the remuneration report, annual governance statement and management commentary.

**Materiality**

- 68. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
- 69. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group of transactions, and balances that exceed our

performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.

- 70. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

	Materiality £million
<b>Overall materiality:</b> Our initial assessment is based on approximately 1.5% of the IJB’s forecasted cost of delegated services in 2021/22. We consider cost of delegated services to be the principal considerations for users of the financial statements when assessing performance.	11.250
..... <b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality. .....	8.500

72. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatement with a value in excess of £250,000; and
  - Other misstatements below £250,000 that we believe warrant reporting on qualitative grounds.

#### Key audit risks in the financial statements

73. Auditing standards require that we inform the Audit and Assurance Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Assurance Committee if our assessment changes significantly during the audit

### Exhibit 3 – Key audit risks in the financial statements

#### Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

74. In response to this risk, we will review the IJB's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will assess whether judgements and assumptions made by management in determining accounting estimates as set out in the financial statements are indicative of potential bias.

### Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the IJB could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

75. We have identified that for contributions received from the IJB's funding partners, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature.

### Risk of fraud in the recognition of expenditure

As most public sector bodies are net spending bodies, the risk of fraud is more likely to occur in expenditure. There is an increased risk that expenditure may be misstated due to improper recognition of expenditure, resulting in a material misstatement in the financial statements.

76. In response to this risk, we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. We will consider the IJB's key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. We will review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

### Charges for services provided by NHS Lothian (significant accounting estimate)

NHS Lothian is partnered with four integration authorities and is responsible for delivering integration functions across the entire Lothian region. Some services are delivered specifically for one integration authority (disclosed as core services) and the charge for delivering this service can be easily determined. Some services however are delivered on a pan-Lothian basis, utilised by one or more integration authority, in which case the charge for delivering these services is allocated across the relevant integration authorities based on demographics and population data.

We therefore deem the charge recognised by Edinburgh IJB for services provided by NHS Lothian to be a significant accounting estimate and represents an increased risk of misstatement in the financial statements.

77. We will consider the basis for the allocation of costs to Edinburgh IJB and ensure this is reasonable and consistent with the agreed model. We will obtain assurances from the audit of NHS Lothian that the information provided to the IJB is arithmetically correct, consistent with the underlying data and free from material misstatement.

## Other risk factors

### Impact of COVID-19 on the financial statements

78. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the financial statements. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies.
79. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

### Accounting estimates

80. Changes to ISA (UK) 540 – Auditing Accounting Estimates and Related

Disclosures, which is applicable for accounting periods beginning on or after 15 December 2019, places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.

81. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to provisions, expenditure and accruals. Other than the charges for services provided by NHS Lothian we have not determined the accounting estimates to be significant. We will however revisit our assessment during the fieldwork and completion stages of our audit.

# Wider scope audit





## Wider scope audit

### Introduction

82. As described above, the Code of Audit Practice frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions:
- Financial sustainability
  - Financial management
  - Governance and transparency
  - Value for money.
83. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the IJB's key priorities and risks, along with discussions with management and review of committee minutes and key strategy documents.
84. Audit Scotland has requested that external auditors focus on the arrangements relating to the best value theme of fairness and equality. We will consider this in the context of our wider scope audit work and include commentary in our annual audit report as appropriate.
85. Exhibit 4 summarises the significant risks in relation to our wider scope audit responsibilities that we have identified at this stage of our audit planning. We have identified four significant risks to the wider scope of our audit.
86. Audit planning is a continuous process and we will report any other identified significant risks, as they relate to the four dimensions, in our annual audit report.


## Exhibit 4 – Wider scope significant risks

### Financial sustainability

The IJB has been able to demonstrate arrangements for short term planning. However, as we first reported in our 2016/17 Annual Audit Report, the IJB has not developed a medium or long-term financial plan or strategy.

As we reported in 2020/21, a Financial Framework 2021-2024 was considered by the Board in December 2020, recognising a gap of £63.5 million in 2023/24. The Financial Framework was intended to form the basis of medium-term financial strategy, however further development of this has been halted. Recognising the need for a more strategic approach to identifying savings, the IJB proposed outlining a more long-term approach within an Integration and Sustainability Framework, which they intend to discuss at the Board development session in January 2022.


The health and social care sector continues to face unprecedented challenges to the sustainability of the system, some of which have been exacerbated by the COVID-19 pandemic. In an environment of heightened financial pressures, increasing demand and the growing need to redesign services, robust and timely financial planning is essential in supporting the sustainability of the IJB in the medium to long-term.

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87. During our audit we will continue to review whether the IJB has developed adequate arrangements that allow it to demonstrate the financial sustainability of the services it directs. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of COVID-19 and that continue to support the delivery of strategic objectives.

### Management of the forecasted year end position

In March 2021, the Board approved the 2021/22 financial plan and the savings and recovery plan. At this stage, the plan identified a deficit of £9.3 million which was subsequently reduced to £5.5 million.

The latest forecast (December 2021) projected a deficit of £13.1 million, resulting from the existing deficit and slippage on the savings and recovery programme. The Scottish Government has committed to supporting Integration Authorities to break even in 2021/22, providing that IJBs take appropriate steps to reduce this requirement as far as possible. Whilst this supports the 2021/22 financial position, it is important to note that the IJB continues to run with a material underlying financial deficit which is likely to increase further in 2022/23.


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88. During our audit we will consider the partnership approach taken to financial management and reporting across the IJB, the City of Edinburgh Council and NHS Lothian, and whether this supports sufficient scrutiny and challenge. We will consider the IJB's approach to identifying and responding to financial challenges that have occurred during the year.

## Maturity of governance arrangements

The Good Governance Institute undertook a review of the IJB's arrangements in 2018/19, outlining a series of 18 recommendations. As reported in our 2020/21 Annual Audit Report, two recommendations remain outstanding relating to:

- The development of the IJB's risk appetite and risk escalation approach; and
- Commissioning an independent assessment of the leadership and managerial capacity needed for the IJB to succeed over the next three years.

The IJB recognises the significant level of transformation required over the medium term to modernise and streamline service delivery and improve outcomes whilst remaining financially sustainable. Robust risk management arrangements and leadership is essential to successfully driving this process.


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89. In response to this risk we will consider the adequacy of governance arrangements in place across the partnership and progress made in addressing the outstanding issues raised by the Good Governance Institute. In addition, we will consider the adequacy of arrangements in place to monitor and report on progress in implementing actions raised by the Good Governance Institute and external audit

### Performance management framework

Delivery against local and national targets is presented to the Performance and Delivery Committee on a bi-monthly basis. However, work remains ongoing to develop and embed an integrated performance framework with measures that more clearly consider performance against the Strategic Plan.

Management had committed to developing this framework by April 2022 to coincide with the commencement of the new Strategic Plan 2022-2025, however work has been paused to manage system pressures and the publication of the Strategic Plan has been delayed until 2023.

Without a clear, effective performance management framework in place, there is a risk that the IJB cannot demonstrate continual improvement of services delivered and the achievement of value for money through appropriate use of resources.

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- A yellow arrow originates from the left side of the page, pointing towards the first item in the list.
90. During the audit we will review performance monitoring arrangements to ensure these are appropriate, effective and in line with best practice. We will consider how the IJB plans to monitor the impact it has on outcomes and whether it can demonstrate that there is sufficient focus on improvement.
  91. We will reflect on the arrangements in place to embed consideration of fairness and equality at the heart of service delivery and strategic planning.

# Audit outputs, timetables and fees



## Audit outputs, timetable and fees

### Audit outputs

Local government bodies are required by the Local Authority Accounts (Scotland) Regulations 2014 to approve their annual accounts by 30 September. The regulations were amended in 2020/21 to defer that date to 31 October and provisions in the Coronavirus Scotland Act 2020 permitted a further deferral to 30 November. These provisions have expired and do not apply to 2021/22.

Audit Scotland has provisionally set a target date of 31 October 2022, which requires a further amendment to the accounts regulations for 2021/22. We will continue to liaise with Audit Scotland to determine the final position.

We have set out below target months which align to the IJB's schedule of Audit and Assurance Committee and Board meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Description	Target month	Deadline for submission to Audit Scotland
External audit plan	This report sets out the scope of our audit for 2021/22.	February 2022	31 March 2022
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	October 2022	31 October 2022
Annual Report to the Board and the Controller of Audit	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	October 2022	31 October 2022

92. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.

93. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review

progress against the action plans on a regular basis.

## Audit fee

94. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.

95. As auditors we negotiate a fee with the audited body during the planning process. The auditor remuneration element of the fee may be varied by up to 10% above the expected fee level to reflect the circumstances and local risks within the body.

96. The expected fee set by Audit Scotland for the 2021/22 audit of the IJB is £27,960 (2020/21: £27,330). We propose setting the 2021/22 audit fee at £29,885 which represents a 7% uplift on the expected fees (10% on the auditor remuneration element). The uplift is slightly lower than prior year and reflects the relative scale of the IJB and the significant risks reported in this plan.

	2021/22	2020/21
Auditor remuneration	£21,175	£21,112
Pooled costs	£2,010	£1,790
Performance audit and best value	£5,670	£5,650
Contribution to Audit Scotland costs	£1,030	£1,040
<b>Total fee</b>	<b>£29,885</b>	<b>£29,592</b>

97. We will take account of the risk exposure of the IJB and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.



## Audit timetable

98. A summary timetable, including audit outputs, is set out as follows:

<b>JAN 22</b>		Planning meeting to inform the 2021/22 audit
<b>FEB 22</b>		Presentation of External Audit Plan to the Audit & Assurance Committee
<b>JUN 22</b>		Accounts presented for audit
<b>JUL 22</b>		Final audit visit begins
<b>SEP 22</b>		Presentation of Annual Report on the Audit to Audit & Assurance Committee
<b>OCT 22</b>		Presentation of Annual Report on the Audit to the IJB

# Appendices



## Appendix 1: Azets

On 7 September 2020, the CogitalGroup of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.



**Nick Bennett**

**Audit Partner**

[nick.bennett@azets.co.uk](mailto:nick.bennett@azets.co.uk)

Nick has over 30 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards. Nick's experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector.



**Nicola MacKenzie**

**Audit Manager**

[nicola.mackenzie@azets.co.uk](mailto:nicola.mackenzie@azets.co.uk)

Nicola has over 7 years' public sector external audit experience, working with a range of organisations across the sector.

Nicola will be your appointed Audit Manager and will work alongside Nick to deliver the audit engagement.

## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" and the Revised Ethical Standard 2019 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by the IJB to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the IJB, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of Edinburgh Integration Joint Board (the IJB) and Azets.

### Annual accounts

We require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant IJB staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together to deliver an efficient and effective audit.

### Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

### Representations

As auditors we do not act as a substitute for the IJB's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the IJB during the course of the audit on matters having a material effect on the financial statements. This will take place by means of a letter of representation, which will require to be signed by the section 95 officer.

### Internal audit

It is the responsibility of the IJB to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

## Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing.

We require the IJB to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales and the Code of Audit Practice.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the

service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Audit and Assurance Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



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We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.  
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