

# South Lanarkshire Integration Joint Board

Annual Audit Plan 2021/22



Prepared for South Lanarkshire Integration Joint Board

February 2022

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work planned for our 2021/22 external audit of South Lanarkshire Integration Joint Board (the Joint Board). The main elements of our work include:

- an audit of the 2021/22 annual accounts to support our opinions on the financial statements
- work to support our opinions on the other statutory information published within the annual accounts including the Management Commentary, the Governance Statement, and the Remuneration Report
- consideration of the arrangements in relation to the four audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of the Best Value arrangements
- review the Joint Board's arrangements for preparing and publishing its Annual Performance Report

## Impact of Covid-19

**2.** The coronavirus (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 during 2022 and where this impacts on annual audits, revisions to this Annual Audit Plan may be required. Any such changes will be communicated to the Joint Board at the earliest opportunity.

## Adding value

**4.** We aim to add value to the 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 the Joint Board promote improved standards of governance, better management and decision making and more effective use of resources. We also attend meetings of Integration Joint Board and the Performance and Audit Sub-Committee and actively participate in discussions where appropriate.

## Respective responsibilities

**5.** The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor, the Joint Board, Chief Officer and Chief Financial Officer. 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 accounts. We also review and report on the arrangements within the Joint Board to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

### The Joint Board, Chief Officer and Chief Financial Officer responsibilities

**8.** The above are responsible for maintaining accounting records and preparing annual accounts that give a true and fair view.

**9.** Also, they have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable them to deliver their objectives.

**10.** The audit of the annual accounts does not relieve management or the Joint Board of their responsibilities.

### Managing the transition to 2022/23 audits

**11.** 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.

# Annual accounts audit planning

## Materiality

**12.** Materiality is an expression of the relative significance of a matter in the context of the annual accounts. We are required to plan our audit to determine with reasonable confidence whether the annual accounts 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 values for the 2021/22 audit

**13.** The materiality values for the Joint Board are set out in [exhibit 1](#).

## Exhibit 1

2021/22 materiality values for the Joint Board

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 of the 2021/22 budget.	£6.403 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 assessed performance materiality at 60% of planning materiality.	£3.842 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.192 million

Source: Audit Scotland

## Significant risk of material misstatement to the annual accounts

**14.** Our risk assessment draws on our cumulative knowledge of the Joint Board, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and a review of other relevant information.

**15.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the annual accounts. This risk has 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 risk of material misstatement to the annual accounts

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<b>1. Risk of management override of controls</b>  International Auditing Standards require that audits are planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Assurances will be obtained from the auditors of NHS Lanarkshire and South Lanarkshire Council over the completeness, accuracy and allocation of income and expenditure.

Source: Audit Scotland

**16.** Based on our assessment of the likelihood and magnitude of risk, we have assessed that there are currently no other risks of material misstatement for the 2021/22 audit of South Lanarkshire Integration Joint Board. We will keep this under review as our audit progresses. If our assessment of risk changes and we consider risks identified to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

## **Consideration of the risks of fraud in the recognition of income and expenditure**

**17.** 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 income. There is a risk that income may be misstated resulting in a material misstatement in the annual accounts. The Joint Board is wholly funded by NHS Lanarkshire and South Lanarkshire Council. We assess that the risk of material misstatement arising from fraud over income is limited. This limitation is to such an extent that we have excluded the risk of fraud over income from our significant audit risks.

**18.** 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 expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in

2021/22 as we do not consider this to be a significant risk for the Joint Board. This is on the basis that all transactions are processed by the partner bodies rather than the Joint Board directly and that all expenditure is undertaken by the partners who are public sector bodies.

**19.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

## Audit risk assessment process

**20.** 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

**21.** 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

**22.** The four dimensions that frame our audit work are shown in [exhibit 3](#).

### Exhibit 3 Audit dimensions



Source: Code of Audit Practice

**23.** 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

**24.** Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will consider and report, where necessary, on these arrangements.

## Audit dimension risks

**25.** We have identified audit risks in the areas set out in [exhibit 4](#). 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. The conclusions from this work will be reported in our 2021/22 Annual Audit Report.

### Exhibit 4

#### 2021/22 audit dimension risks

Audit dimension risk	Sources of management assurance	Planned audit response
<b>1. Financial sustainability</b>  There remains uncertainty around financial sustainability as the wider impact of Covid-19 is not yet known. Efficiency savings agreed between the Joint Board and each partner are being realised in 2020/21. However, these are generally on a non-recurring basis (i.e., through unfilled staffing vacancies) rather than on a sustainable recurring basis.  <b>Risk:</b> Added financial pressure in subsequent years as budgets	Regular monitoring and reporting to the Integration Joint Board on the financial position.  There are plans to review services going forward to capture the positive changes arising from the pandemic, harness technological advances, promote self-care and self-management and ultimately, to shift the balance of care.	Review financial monitoring reports to assess the financial position, including progress in realising efficiency savings by each partner.  Consider progress made in reviewing services to reflect the learning from the pandemic and to the balance of care.

Audit dimension risk	Sources of management assurance	Planned audit response
become increasingly constrained.		
<p><b>2. Service pressures arising from the pandemic</b></p> <p>The Covid-19 pandemic continues to place significant pressure on health and social care services commissioned by the Joint Board and delivered by each partner.</p> <p>The unprecedented demand reflects the significant backlog of service users and patients seeking health and social care services. Health concerns, in particular, have been exacerbated by the pandemic.</p> <p><b>Risk:</b> Covid-19 pressures may exceed the Joint Board's commissioning ability and each partner's ability to meet the levels of service user and patient demand in South Lanarkshire.</p>	<p>Quarterly performance monitoring reports to the Joint Board and the Performance and Audit Subcommittee.</p> <p>Actively pursuing new and enhanced service delivery models which reflect the learning from the pandemic. Examples include Home First and Hospital at Home.</p>	<p>Review the board's performance monitoring reports to assess the extent to which each partner is meeting service performance targets and the demand for services in South Lanarkshire.</p>

Audit dimension risk	Sources of management assurance	Planned audit response
<p><b>3. Workforce pressures</b></p> <p>In common with other health and social care bodies, each partner is facing significant workforce pressures. This is due to a combination of unfilled vacancies in both health and social care, but also high levels of staff absence due to the direct impact of Covid-19, or increasingly, wellbeing issues and individual health concerns that may have been exacerbated during the pandemic.</p> <p><b>Risk:</b> As a result of significant workforce pressures, each partner may be unable to achieve the Joint Board's commissioning intentions to sustain services.</p>	<p>The Joint Board is actively seeking ways to support each partner to commission and enhance staffing levels across services.</p> <p>Management of staffing across services by each partner to ensure "never services" are adequately resourced.</p>	<p>Monitor reports taken to the Joint Board and the Performance and Audit Sub-Committee in respect of workforce pressures experienced by each partner.</p> <p>Review financial monitoring and performance reports to identify issues arising due to workforce pressures experienced by each partner.</p>

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Source: Audit Scotland

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# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**26.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [exhibit 5](#), 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).

**27.** 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.

**28.** We will provide an independent auditor's report to the Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the 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.

**29.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19. Due to the May 2022 Local Government elections, the committee dates from June 2022 onwards are yet to be finalised. However, our audit work has been scheduled to ensure the planned statutory deadline is met.

## Exhibit 5 2021/22 audit outputs

Audit Output	Audit Scotland target date	Performance and Audit Sub-Committee Date
Annual Audit Plan	31/03/2022	01/03/2022
Independent Auditor's Report	31/10/2022	By 31/10/2022
Annual Audit Report	31/10/2022	By 31/10/2022

Source: Audit Scotland

## Timetable

**30.** To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [exhibit 6](#) that has been discussed with management.

**31.** 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.

**32.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management over the course of the audit.

## Exhibit 6

### Proposed annual accounts timetable

Key stage	Provisional date
Consideration of the unaudited annual report and accounts by those charged with governance	By 30/06/2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	By 30/06/2022
Latest date for final clearance meeting with the Chief Financial Officer	By 31/08/2022
Issue of Letter of Representation and proposed Independent Auditor's Report	By 31/10/2022
Agreement of audited and unsigned annual accounts	By 31/10/2022
Issue of Annual Audit Report to those charged with governance	By 31/10/2022
Signed Independent Auditor's Report	By 31/10/2022

Source: Audit Scotland

## Audit fee

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

**34.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual 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.

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# Other matters

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## Internal audit

**35.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures.
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort.
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**36.** The Joint Board's internal audit function is provided jointly by the internal audit teams of NHS Lanarkshire and South Lanarkshire Council. The external auditors of the partners have completed assessments of their respective internal audit functions. They found that the internal audit services operate in accordance with Public Sector Internal Audit Standards and have sound documentation standards and reporting procedures in place.

**37.** From our initial review of the internal audit plan, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We may consider aspects of internal audit's work in respect of our wider audit dimension responsibilities.

## Independence and objectivity

**38.** 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 annual accounts, 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.

**39.** The engagement lead (i.e. appointed auditor) for the Joint Board is Fiona Mitchell-Knight, 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 Joint Board.

## Quality control

**40.** 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.

**41.** 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.

**42.** 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.

# South Lanarkshire Integration Joint Board

## Annual Audit Plan 2021/22

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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