

# Falkirk Integration Joint Board

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Falkirk Integration Joint Board

17 March 2023

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Falkirk Integration Joint Board (the IJB). The main elements of our work include:

- an audit of the annual accounts and provision of an Independent Auditor's Report
- 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 arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- review the IJB's arrangements for preparing and publishing its Annual Performance Report.

## Audit Appointment

2. We are pleased to be appointed as the external auditor of the IJB for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

5. We aim to add value to the IJB through our external audit work by being constructive and forward looking, by attending meetings of the Integration Joint Board and the Audit Committee and by recommending and encouraging good practice. In so doing, we will help the IJB promote improved standards of

governance, better management and decision making and more effective use of resources.

## **Respective responsibilities of the auditor and the Integration Joint Board**

**6.** The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the IJB. Key responsibilities are summarised below.

### **Auditor responsibilities**

**7.** 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.

**8.** 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 wider scope arrangements in place at the IJB. In doing this, we aim to support improvement and accountability.

### **The Integration Joint Board and Chief Officer responsibilities**

**9.** The IJB is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

**10.** The IJB 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.

# Financial statements audit planning

## Introduction

**11.** The annual accounts are an essential part of demonstrating the IJB's stewardship of resources and its performance in the use of those resources.

**12.** 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 main financial systems relevant to the production of the financial statements.

## Materiality

**13.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

**14.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the IJB are set out in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for Falkirk Integration Joint Board

Materiality	Amount
<p><b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the IJB's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£4.8 million
<p><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 could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.</p>	£3 million

**Reporting threshold (ie clearly trivial)** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £140,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**15.** Our risk assessment draws on our cumulative knowledge of IJB, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**16.** 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.

**17.** 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

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></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"> <li>• Agreement of balances and transactions to Falkirk Council and NHS Forth Valley financial reports/ ledger/ correspondence.</li> <li>• Assurances will be obtained from the auditors of Falkirk Council and NHS Forth Valley over the completeness, accuracy and allocation of income and expenditure.</li> <li>• Review of significant adjustments at the year-end where we consider there to be greatest risk of material misstatement through management override of controls.</li> <li>• Review of financial monitoring reports during the year.</li> </ul>

Source: Audit Scotland

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**18.** 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. The IJB is wholly funded by NHS Forth Valley and Falkirk Council. We assess that the risk of material misstatement arising from fraud over income is limited. We have therefore rebutted the risk of fraud over income.

**19.** 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 material misstatement due to fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure as we do not consider this to be a significant risk to the IJB. This is on the basis that all transactions are processed by the partner bodies rather than the IJB directly and that all expenditure is undertaken by the partners who are public sector bodies.

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

### Other areas of audit focus

**21.** As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

**22.** The area of specific audit focus relates to IJB funding. The Scottish Government wrote to all IJBs in September 2022 indicating that, due to changes in public health policy, it intended to reclaim and re-distribute some IJB reserves which relate to Covid funding. It is anticipated that this will be achieved through a reduction in NHS funding allocations, ultimately reducing NHS Forth Valley's funding contribution to the IJB. We will review the disclosure of this within the annual report and accounts.

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# Wider Scope and Best Value

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## Introduction

**23.** The [Code of Audit Practice](#) sets out the four areas 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 wider scope areas in audited bodies.

**24.** In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities. We will also consider the IJB's achievement of its planned savings for 2022/23 and report on this in our Annual Audit Report.
- **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 medium and longer term. Specifically, we will review the IJB's medium/ long term financial plans and report on the appropriateness of these in our Annual Audit Report.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the IJB. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the IJB demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

**25.** Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

## Climate Change

**26.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of achieving net zero emissions by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.



**27.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on (audited body's) arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

### **Cyber Security**

**28.** There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Falkirk IJB's arrangements for managing and mitigating cyber security risks.

### **Best Value**

**29.** Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how Falkirk IJB demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**30.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), 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).

**31.** 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.

**32.** We will provide an independent auditor's report to the IJB and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the IJB and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**33.** [Exhibit 6](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

## Exhibit 6 2020/21 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31/03/2023	N/A
Independent Auditor's Report	15/09/2023	15/09/2023
Annual Audit Report	15/09/2023	15/09/2023

Source: Audit Scotland

## Timetable

**34.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.



**35.** 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. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**36.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

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## Exhibit 7

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	16 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Chief Finance Officer	25 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	1 September 2023
Agreement of audited and unsigned annual report and accounts	1 September 2023
Issue of Annual Audit Report to those charged with governance.	15 September 2023
Signed Independent Auditor's Report	15 September 2023

Source: Audit Scotland

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## Audit fee

**37.** In determining the audit fee, we have taken account of the risk exposure of the IJB and the planned management assurances in place. The proposed audit fee for 2022/23 is £31,470 (£27,960 in 2021/22).

**38.** Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**39.** In setting the fee for 2022/23 we have assumed that the IJB has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**40.** Falkirk IJB's internal audit function is provided by the internal audit function of NHS Forth Valley. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we may consider aspects of internal audit's work in respect of our wider scope audit responsibilities.

## Independence and objectivity

**41.** 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.

**42.** 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

**43.** The appointed auditor for the IJB is Pauline Gillen, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the IJB.

## Audit Quality

**44.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**45.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**46.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

**47.** Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

**48.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

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# Appendix 1. Your audit team

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**49.** The audit team involved in the audit of the Falkirk IJB have significant experience in public sector audit.

**Pauline Gillen**  
Audit Director  
pgillen@audit-scotland.gov.uk

Pauline has 16 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

**Gillian McCreadie**  
Senior Audit Manager  
gimccreadie@audit-scotland.gov.uk

Gillian has over 13 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

**Sarah Lawton**  
Senior Auditor  
slawton@audit-scotland.gov.uk

Sarah has considerable experience in planning and delivering audits. Sarah will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

**Jennifer Doolan**  
Auditor  
jdoolan@audit-scotland.gov.uk

Jennifer has over 2 years of experience of delivering audits. Jennifer will complete the majority of the audit work and work alongside the Senior Auditor, Senior Audit Manager and Audit Director to deliver the audit.

**50.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# Falkirk Integration Joint Board

## Annual Audit Plan 2022/23

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

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