

Midlothian Integration Joint Board

Annual Audit Plan 2022/23



Prepared for Midlothian Integration Joint Board

March 2023

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Introduction

Summary of planned audit work

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

- evaluation of the key controls within the main accounting systems
- an audit of the financial statements, and provision of an Independent Auditor's Report
- an audit opinion on the other statutory information published within the Annual Accounts including the Performance Report, the Governance Statement and aspects of the Remuneration and Staff 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.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Midlothian Integration Joint Board 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 audit risk.

Adding value

5. We aim to add value to Midlothian Integration Joint Board through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help Midlothian Integration Joint Board promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Midlothian Integration Joint Board

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Midlothian Integration Joint Board. 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 Midlothian Integration Joint Board. In doing this, we aim to support improvement and accountability.

Midlothian Integration Joint Board responsibilities

9. Midlothian Integration Joint Board is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. Midlothian Integration Joint Board has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The Annual Accounts are an essential part of demonstrating Midlothian Integration Joint Board's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest audit 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 determine with reasonable confidence 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 Midlothian Integration Joint Board are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Midlothian Integration Joint Board

Materiality	Amount
<p>Planning materiality – 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 Midlothian Integration Joint Board'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>	£3.4 million
<p>Performance materiality – 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 75% of planning materiality.</p>	£2.5 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. £170,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of Midlothian Integration Joint Board, 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 risk of material misstatement to the financial statements. This is the risk which 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

2022/23 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Agreement of balances and transactions to Midlothian Council and NHS Lothian financial reports/ledger and correspondence. • Constituent body auditor assurances will be obtained over the completeness, accuracy and allocation of income and expenditure to Midlothian Integration Joint Board activities included in the Annual Accounts. • Review of year end adjustments and journals.

Significant risk of material misstatement	Sources of assurance	Planned audit response
perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.		

Source: Audit Scotland

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.

19. Midlothian Integration Joint Board is wholly funded by Midlothian Council and NHS Lothian. 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.

20. In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have rebutted this risk on the basis that all transactions are processed by the partner bodies rather than Midlothian Integration Joint Board directly and that all expenditure is undertaken by the partners who are public sector bodies.

22. 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

23. As part of our assessment of audit risks, we have identified one other area where we consider there is 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 it to represent a significant risk. We will keep this area under review as our audit progresses.

24. The area of specific audit focus relates to the risk of misstatement in Midlothian Integration Joint Board accounts and disclosures if there is a lack of clarity in the amount and accounting treatment of the proposed reduction in allocation of 2022/23 NHS funding to the health and social care partnership.

Wider Scope and Best Value

Introduction

25. 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.

26. 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, and arrangements to prevent and detect fraud, error and other irregularities, fraud and corruption.
- **Financial sustainability** – means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). We will also comment on financial sustainability in the longer term.
- **Vision, leadership and governance** – Audited bodies must have a clear vision and strategy, and work together with partners and communities to improve outcomes. set priorities for improvement. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by Midlothian Integration Joint Board. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – Audited bodies must make best use of their resources to meet stated outcomes and improvement objectives.

Wider scope risks

27. We have identified wider scope 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.

Exhibit 4 2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
<p>2.Financial sustainability</p> <p>Midlothian Integration Joint board (the IJB) has developed a rolling five year financial plan for the period 2022/23 to 2026/27. The latest plan is forecasting a cumulative funding gap of £12 million to 2026/27.</p> <p>The latest cost pressures and inflation figures have been applied in the financial plan but these pressures will continue to present significant challenges to financial planning and the ability of the IJB to deliver quality services.</p>	<ul style="list-style-type: none"> IJB Financial monitoring reports and other financial reports to the IJB included budget reports and longer-term financial plans. This IJB risk register presented to the IJB Audit & Risk Committee 	<p>Perform a review of the five year financial plan , providing comment in our Annual Audit Report.</p>

Source: Audit Scotland

28. 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 how public sector bodies are responding to cyber security threats.

Cyber Security

29. 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 extend our assurance requirements from the auditors of the two partners in order to learn about Midlothian Council and NHS Lothian's arrangements for managing and mitigating cyber security risks.

Best Value

30. Integration Joint Boards have a statutory duty to make arrangements to secure Best Value. We will consider how Midlothian Integration Joint Board 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

31. 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.

32. 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.

33. We will provide an independent auditor's report to Midlothian Integration Joint Board and the Accounts Commission setting out our opinions on the Annual Accounts. We will provide Midlothian Integration Joint Board and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

34. [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 and Risk Committee Date
Annual Audit Plan	31/02/2023	02/03/2023
Independent Auditor's Report	30/09/2023	21/09/2023
Annual Audit Report	30/09/2023	21/09/2023

Source: Audit Scotland



Timetable

35. 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.

36. 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 audit quality.

37. 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.

Exhibit 7 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited Annual Accounts by those charged with governance	30 June 2023
Latest submission date for the receipt of the unaudited Annual Accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Chief Finance Officer	31 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	7 September 2023
Agreement of audited and unsigned Annual Accounts	21 September 2023
Issue of Annual Audit Report to those charged with governance.	21 September 2023
Signed Independent Auditor's Report	21 September 2023

Source: Audit Scotland

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of the Midlothian Integration Joint Board and the planned management assurances in place. The agreed audit fee for 2022/23 is £31,470 (2021/22: £27,960).

39. 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.

40. In setting the fee for 2022/23 we have assumed that Midlothian Integration Joint Board 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.

Other matters

Internal audit

41. It is the responsibility of the Midlothian Integration Joint Board to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

42. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

43. 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.

44. 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.

45. The appointed auditor for Midlothian Integration Joint Board is Gillian Woolman, 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 Midlothian Integration Joint Board.

46. The appointed auditor for Midlothian Integration Joint Board will be changing from 31 March 2023. Audit Scotland has put in place a handover process to ensure a smooth transition. Midlothian Integration Joint Board will be advised of the new appointed auditor in due course.

Audit Quality

47. 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.

48. 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.

49. 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.

50. 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.

51. 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.

Appendix 1. Your audit team

52. The audit team involved in the audit of Midlothian Integration Joint Board have significant experience in public sector audit.

Gillian Woolman

Audit Director

gwoolman@audit-scotland.gov.uk

Gillian has 27 years of public sector audit experience. She has been an engagement lead since 2001 in the local government, central government and NHS sectors. She is a member of ICAEW and CIPFA UK-wide committees.

Patricia Fraser

Senior Audit Manager

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Patricia has 25 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.

Kay Jenks

Audit Manager

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

53. 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.

Midlothian Integration Joint Board

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

www.audit-scotland.gov.uk/accessibility

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