

Aberdeen City Integration Joint Board

Annual Audit Plan 2022/23



Prepared for Aberdeen City Integration Joint Board

April 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 Aberdeen City Integration Joint Board (IJB). The main elements of our work include:

- an audit of the annual accounts leading to an independent audit opinion
- independent audit opinions on other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- consideration of Best Value arrangements and wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Aberdeen City IJB for the period 2022/23 to 2026/27 inclusive. You can find details 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 organisation 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 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, identifying and encouraging good practice and by making recommendations. 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 Integration Joint Board

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Aberdeen City 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 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.

Aberdeen City Integration Joint Board 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 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 whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 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 Aberdeen City IJB

Materiality	Amount
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 the Aberdeen City IJB's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the latest projected outturn for 2022/23.	£7.8 million
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 65% of planning materiality.	£5.0 million

Materiality	Amount
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our knowledge of the IJB, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, consideration of the work of internal audit 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>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 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"> • Evaluate assurances from the external auditors of partner bodies, i.e., Aberdeen City Council and NHS Grampian, which will include: <ul style="list-style-type: none"> ○ Assessing the design and implementation of controls over journal entry processing ○ Making inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> ○ Testing journals around the year-end and focusing on areas of risk ○ Evaluating significant transactions outside the normal course of business ○ Reviewing accounting estimates ○ Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year ○ Focused testing of accounting accruals and prepayments. ● Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.
<p>2. Replacement of social care system</p> <p>The health and social care partnership processes social care packages amounting to approx. £90 million each year. The case management system was replaced in October 2022. Changes to systems and processes come with a risk that design and operation of controls may be ineffective, and risk of fraud and error increases. There is also a risk that data migrated from the old to the new system may be inaccurate and/or incomplete.</p>	<p>Project implementation team assurances.</p>	<ul style="list-style-type: none"> ● Evaluate assurances from the external auditor of the partner body, Aberdeen City Council.

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, 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. We have rebutted this risk because funding is provided by way of budget allocations from the IJB's partners and can be readily agreed to third party confirmations. Any changes require approval from each partner in line with the IJB's integration scheme. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.

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 also rebutted the risk of material misstatement caused by fraud because the IJB does not incur expenditure directly and does not operate a bank account. The IJB commissions services from its partner bodies with all IJB expenditure being processed through the financial systems of the partner bodies.

22. As a result, we have not 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 other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The areas of specific audit focus are:

- Transactions for the IJB are recorded through the partners' financial ledgers. If robust processes are not in place, there is a risk that expenditure and income is miscoded and IJB accounts are misstated. Since this is the first year of our audit appointment, we will discuss with Finance officers the arrangements in place for pulling together information required to prepare the financial statements and ensuring it is complete and correctly presented. We will also review related party transactions including reconciliation with the relevant balances in the partners' accounts, as appropriate, to ensure accuracy and completeness of reported amounts.
- The Scottish Government has recovered surplus Covid-19 reserves from IJBs. With regard to Aberdeen City, this amounted to £9.6 million. This presents a risk that Covid related expenditure may be misstated to minimise the surplus returned. We will also consider the appropriateness of the accounting treatment and transparency of disclosures around this issue in the annual accounts.

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 including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **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).
- **Vision, leadership and governance** – we conclude on the IJB's arrangements to deliver its vision, strategy and priorities. 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.

Wider scope risks

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

Exhibit 3

2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>The board acknowledges that while demand for services is increasing, financial resources are not keeping pace. There is a need to explore areas where savings can be made, for</p>	<ul style="list-style-type: none"> • Regular budget monitoring • Medium term financial planning arrangements. 	<ul style="list-style-type: none"> • Discussion with officers. • Monitor the financial position throughout the year and provide an update in our 2022/23 Annual Audit Report.

Description of risk	Sources of assurance	Planned audit response
example, through robust financial management, service redesign and innovation.		<ul style="list-style-type: none"> Consider the long-term affordability of budget decisions.
<p>2. Workforce challenges</p> <p>The recruitment and retention of staff is challenging across all health and social care services, particularly in the areas of trauma informed care, complex care and self-directed support. There is a shortage of clinical staff which is a significant risk for sustainable service delivery.</p>	<ul style="list-style-type: none"> Workforce planning arrangements. 	<ul style="list-style-type: none"> Discussion with officers. Review of workforce plan.

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 audited bodies' arrangements in the following area:

- Cyber security** - 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 our 2022/23 audit, we will consider the IJB's arrangements for managing and mitigating such 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 the 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. All Annual Audit Plans and reports, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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 Aberdeen City IJB and the Accounts Commission setting out our opinions on the annual accounts. We will provide the IJB and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

33. [Exhibit 4](#) 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 4

2022/23 Audit outputs

Audit Output	Target date outlined in Audit Scotland Planning Guidance	Date of nearest scheduled Risk, Audit and Performance Committee
Annual Audit Plan	By 31 March 2023	2 May 2023
Independent Auditor's Report	By 30 September 2023	19 September 2023
Annual Audit Report	By 30 September 2023	19 September 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 5](#).

35. 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 5

Proposed annual report and accounts timetable

✓	Key stage	📅	Provisional Date
	Consideration of the unaudited annual accounts by those charged with governance		13 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		29 August 2023
	Issue of draft Letter of Representation and proposed Independent Auditor's Report		12 September 2023
	Agreement of audited and unsigned annual accounts		12 September 2023
	Issue of Annual Audit Report to those charged with governance.		12 September 2023
	Signed Independent Auditor's Report		19 September 2023

Source: Audit Scotland

Audit fee

36. 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 (2021/22 £30,660).

37. 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.

38. 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.

Other matters

Internal audit

39. It is the responsibility of the IJB to establish adequate internal audit arrangements. Services are provided by the chief internal auditor of Aberdeenshire Council under a shared service arrangement.

40. We intend to draw general assurance from internal audit when assessing the IJB's governance arrangements and our wider scope responsibilities. We are not currently planning to use the work of internal audit to provide assurance for our audit procedures on the financial statements

Independence and objectivity

41. Auditors appointed by the 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 Michael Oliphant, 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 Accounts Commission. 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.

Appendix 1. Your audit team

49. The audit team involved in the audit of Aberdeen City IJB have significant experience in public sector audit.

Name	Position
Michael Oliphant moliphant@audit-scotland.gov.uk	Audit Director/Engagement Lead
Anne MacDonald amacdonald@audit-scotland.gov.uk	Senior Audit Manager/Engagement Manager
Arlene Deeming adeeming@audit-scotland.gov.uk	Senior Auditor
Deirdre Sim dsim@audit-scotland.gov.uk	Auditor

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.

Aberdeen City 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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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk