

East Lothian Integration Joint Board

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for East Lothian Integration Joint Board

27 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 East Lothian Integration Joint Board (the IJB). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual accounts including the Management Commentary, the Annual 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.

Audit Appointment

2. We are pleased to be appointed as the external auditor of East Lothian 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 East Lothian IJB 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 East Lothian IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and East Lothian IJB

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and East Lothian IJB. Key responsibilities are summarised in [paragraphs 7 to 10](#).

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 wider scope arrangements including the IJB's arrangements to secure best value. In doing this, we aim to support improvement and accountability.

East Lothian IJB responsibilities

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

10. East Lothian 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 it to deliver its 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 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 East Lothian IJB are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for East Lothian IJB

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 the IJB's operations. For the year ended 31 March 2023 we have set our materiality at 2% of net expenditure based on the audited financial statements for 2021/22.</p>	£4.0 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>	£3.0 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.

£250
thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of East Lothian IJB, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management and those charged with governance, 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 initial 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</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 the assurances obtained from the auditors of East Lothian Council and NHS Lothian in line with the 2022/23 Integration Joint Boards Protocol for Auditor Assurances. • Agreement of balances and transactions to financial reports / ledger of the two partners. • Detailed testing of any significant year-end adjustments. • Review of East Lothian IJB financial monitoring reports during the year. • Make inquiries of individuals involved in the financial reporting process about inappropriate or

Significant risk of material misstatement	Sources of assurance	Planned audit response
management's ability to override controls that otherwise appear to be operating effectively.		<p>unusual activity relating to the processing of journal entries and other adjustments.</p> <ul style="list-style-type: none"> • Test the process for the IJB to record transactions, including journals at the year-end and post-closing entries, and focus on significant risk areas. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

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. We have rebutted this risk as the IJB is wholly funded by contributions from East Lothian Council and NHS Lothian which are clearly communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity and incentive to manipulate the recognition of income in the financial statements.

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 as East Lothian IJB does not directly incur expenditure. The IJB commissions services from its partner bodies (East Lothian Council and NHS Lothian) with all IJB expenditure processed through the financial systems of the partner bodies. Therefore, the manipulation of expenditure is a risk for the partner bodies rather than the IJB.

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

Wider Scope and Best Value

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.
- **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 arrangements in place to deliver the vision, strategy and priorities adopted by East Lothian IJB. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how East Lothian IJB demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

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

Exhibit 3**2022/23 wider scope risk**

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial Sustainability:</p> <p>The IJB is operating in an environment of increasing financial constraints. The Medium-Term Financial Plan 2022/23-2026/27 indicates a funding gap in each year beyond 2022/23 but does not set out how the IJB plans to address the gap. There is a risk that the IJB is unable to deliver the changes required to remain within its resource constraints.</p> <p>In addition, 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 to meet current Covid priorities. It is anticipated that this will be achieved through a reduction in NHS funding allocations, ultimately reducing NHS Lothian's funding contribution to the IJB.</p> <p>If funding is reduced, this could have a significant impact on the IJB's ability to deliver services or its ability to meet future financial pressures.</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. • IJB risk register presented to the IJB Audit & Risk Committee 	<p>We will review the IJB's financial reporting to assess the reasonableness of the assumptions in the medium-term financial plan.</p> <p>We will review progress made in dealing with cost pressures, including meeting any savings targets.</p> <p>We will review the Management Commentary in the annual accounts for disclosures on the IJB's financial decision making during 2022/23.</p> <p>We will review Board papers and minutes to assess the transparency of financial decision making.</p>

Source: Audit Scotland

26. 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 arrangements for tackling climate change and responding to cyber security threats.

Climate Change

27. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero 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.

28. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the IJB's arrangements for responding to climate change and the extent it works with NHS Lothian and East Lothian Council on areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

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 consider the IJB's arrangements for managing and mitigating cyber security risks.

Best Value

30. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how East Lothian 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

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, 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.

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 East Lothian IJB and the Accounts Commission setting out our opinions on the annual accounts. We will provide East Lothian 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.

34. [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	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	8 March 2023
Independent Auditor's Report	30 September 2023	12 September 2023
Annual Audit Report	30 September 2023	12 September 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 5](#) 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 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 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	22 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	15 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	29 August 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	By 30 September 2023

Source: Audit Scotland

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of the East Lothian IJB and the planned management assurances in place. The agreed audit fee for 2022/23 is £31,470 (2021/22 £27,960) as set out in [Exhibit 6](#).

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.

Exhibit 6**Audit fees (including VAT)**

Fee component	Fees (£)
External Auditor Remuneration	33,220
Contribution to Audit Scotland costs	1,260
Contribution to Performance and Best Value	6,320
Sectoral Cap Adjustment	-9,330
2022/23 Audit fee	31,470

Source: Audit Scotland

40. In setting the fee for 2022/23 we have assumed that East Lothian 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

41. It is the responsibility of East Lothian IJB to establish adequate internal audit arrangements. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements responsibilities.

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 East Lothian IJB is John Boyd, 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 East Lothian IJB.

Audit Quality

46. 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.

47. 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.

48. 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.

49. 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.

50. 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

51. The senior audit team involved in the audit of East Lothian IJB have significant experience in public sector audit. The senior team will be supported by a number of part or fully qualified auditors to complete the audit work.

John Boyd

Audit Director

jboyd@audit-scotland.gov.uk

John is the Audit Director, with overall responsibility for the Audit Engagement. John has considerable audit experience across public sector audits including local government, IJB, health and central government sectors. John is the Audit Scotland Audit Services Group Lead for local authority audit and is a member of the Local Authority (Scotland) Accounting Advisory Committee (LASAAC).

Rachel Browne

Senior Audit Manager

rbrowne@audit-scotland.gov.uk

Rachel has over 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.

Karla Graham

Senior Auditor

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

52. 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.

East Lothian 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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