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Agenda Item: 5

## **Integration Joint Board – Audit Committee.**

**Date of Meeting: 16 March 2022.**

**Subject: Audit Scotland Annual Audit Plan.**

### **1. Purpose**

1.1. To present Audit Scotland's Annual Audit Plan 2021/22 for Members' information.

### **2. Recommendations**

The Integration Joint Board – Audit Committee is invited to note:

2.1. The external audit plan for 2021/22, prepared by Audit Scotland, attached as Appendix 1 to this report.

### **3. Background**

3.1. Audit Scotland is the appointed external auditor for the Integration Joint Board.

3.2. The auditor's responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and are guided by the auditing profession's ethical guidance.

3.3. Following the conclusion of each year's planning process, the external auditor prepares an annual audit plan which outlines the work to be undertaken as part of the annual audit of the Integration Joint Board. The plan also sets out the ways in which Audit Scotland will meet their respective responsibilities under the Code of Audit Practice.

### **4. Audit Plan**

4.1. The Annual Audit Plan 2021/22, attached as Appendix 1 to this report, contains an overview of the planned scope and timing of the audit. The plan identifies the work required to provide an opinion on the financial statements and related matters.

4.2. The Annual Audit Plan details the main risk areas for the Integration Joint Board which have been categorised into financial risks and wider dimension risks on pages 5 to 10.

## 5. Contribution to quality

Please indicate which of the Orkney Community Plan 2021 to 2023 visions are supported in this report adding Yes or No to the relevant area(s):

<b>Resilience:</b> To support and promote our strong communities.	Yes.
<b>Enterprise:</b> To tackle crosscutting issues such as digital connectivity, transport, housing and fuel poverty.	No.
<b>Equality:</b> To encourage services to provide equal opportunities for everyone.	Yes.
<b>Fairness:</b> To make sure socio-economic and social factors are balanced.	Yes.
<b>Innovation:</b> To overcome issues more effectively through partnership working.	No.
<b>Leadership:</b> To involve partners such as community councils, community groups, voluntary groups and individuals in the process.	No.
<b>Sustainability:</b> To make sure economic and environmental factors are balanced.	No.

## 6. Resource and financial implications

6.1. The audit fee for 2021/22 audit is £27,960. This is a 2.3% increase from 2020/21 (£27,330).

## 7. Risk and equality implications

7.1. There are no risk or quality implications directly arising from this report.

## 8. Direction required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.

## 9. Escalation required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
Orkney Islands Council.	No.

## **10. Author and contact information**

10.1. Pat Robinson (Chief Finance Officer), Integration Joint Board. Email: [pat.robinson@orkney.gov.uk](mailto:pat.robinson@orkney.gov.uk), telephone: 01856873535 extension 2611.

## **11. Supporting documents**

11.1. Appendix 1: Orkney Integration Joint Board Annual Audit Plan 2021/22.

# Orkney Integration Joint Board

Annual Audit Plan 2021/22 – DRAFT



Prepared for the Orkney Integration Joint Board Audit Committee

16 March 2022

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Orkney Integration Joint Board (Orkney IJB). The main elements of our work include:

- 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, annual governance statement and remuneration report.
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements.

## Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to Orkney IJB through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Orkney IJB promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Orkney IJB

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Orkney IJB. Key responsibilities are summarised below.

## Auditor responsibilities

**6.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

**7.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage performance and monitor use of resources. In doing this, we aim to support improvement and accountability.

## Orkney IJB responsibilities

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

**9.** Also, Orkney IJB has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable the IJB to deliver its objectives.

## Managing the transition to 2022/23 audits

**10.** Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. 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 2021/22 audit

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

## Exhibit 1

### 2021/22 Materiality levels for Orkney IJB

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£1 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.	£0.5 million
<b>Reporting threshold (ie clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£40 thousand

Source: Audit Scotland



## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of Orkney IJB, its major transaction streams and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**14.** 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

#### 2021/22 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 the 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>• Evaluate assurances obtained from the auditors of Orkney Islands Council and NHS Orkney over the completeness, accuracy and allocation of the journal entries.</li> <li>• Agreement of balances and transactions to Orkney Islands Council and NHS Orkney financial reports.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Evaluate any significant transactions outside the normal course of business.</li> </ul>

Source: Audit Scotland

**15.** 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. We have rebutted this risk for Orkney IJB because the IJB does not raise any revenue directly. All funding for the IJB is agreed by Orkney Islands Council and NHS Orkney as part of their budgeting processes and can be agreed to third party documentation. This limits the opportunity for manipulation.

**16.** 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. We have rebutted this risk for Orkney IJB because expenditure is incurred and processed by the partner bodies and is generally a high volume of low value transactions. The risk of a material misstatement arising from fraudulent manipulation is therefore deemed to be low.

**17.** 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

**18.** 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. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**19.** The areas of specific audit focus are:

- Payments to primary care contractors are a material and complex account area with payments totalling around £10 million each year. There was a qualification in the service auditor report in 2020/21, however we worked with the auditor of NHS Orkney to gain assurance over the reported figures in the financial statements. We will liaise with the auditor of NHS to provide assurance over the primary care expenditure recorded in the IJB financial statements.

### Audit risk assessment process

**20.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

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# Audit dimensions and Best Value

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## Introduction

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

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

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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23. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term.

We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Audit dimension risks

24. We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

### Exhibit 4

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial Sustainability</b></p> <p>A savings target of £4.2M has been applied for the three year period 2020 to 2023, of which only £259.4K of recurring savings has been identified to date per the most recent financial monitoring report. NHS Orkney has applied a savings target of £1.8M for 2021/22 (£800K carried forward from 2020/21), with zero savings identified to date.</p> <p>Medium term financial planning will have to be revised to determine a realistic approach to achieving savings targets.</p>	<ul style="list-style-type: none"> <li>• A new Medium Term Financial Plan is due to be completed in June 2022.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of ongoing budget monitoring and progress on meeting savings targets.</li> <li>• Review of revised financial plans and the development of savings options at the IJB.</li> </ul>
<p><b>2. Performance and Best Value Reporting</b></p> <p>Management information is provided to those</p>	<ul style="list-style-type: none"> <li>• OIJB has introduced a new Planning and Performance Officer, as well as a new</li> </ul>	<ul style="list-style-type: none"> <li>• Monitor performance reporting to the Board to ensure OIJB are reporting in-line with the new</li> </ul>

Description of risk	Sources of assurance	Planned audit response
<p>charged with governance through the annual performance report. As this is an annual process there is a risk that performance failures are not identified in sufficient time to take corrective action.</p> <p>Historically the annual performance report has not included an assessment of the IJB's best value arrangements. There is a risk that the IJB is not able to demonstrate that it is complying with guidance and delivering best value to the residents of Orkney.</p>	<p>Performance Management Framework for 2021-2025 which requires regular performance reporting.</p>	<p>Performance Management Framework.</p> <ul style="list-style-type: none"> <li>Consider the IJB's best value arrangements and whether there is appropriate scrutiny of best value by those charged with governance.</li> </ul>
<p><b>3. Unscheduled Care (Set Aside).</b></p> <p>The "set aside" budget is Orkney Integration Joint board's share of the budget for delegated acute services provided by hospitals on behalf of the IJB. There is a risk that although the unscheduled care budget is delegated to the IJB the arrangement is not working as intended.</p>	<ul style="list-style-type: none"> <li>The IJB continues to work with NHS Orkney in developing the set aside arrangements.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the set aside arrangements in place.</li> <li>Engage with officers to ensure a robust mechanism has been developed to budget for the set aside income and expenditure.</li> </ul>

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**25.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**26.** 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.

**27.** We will provide an independent auditor's report to Orkney IJB and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the Orkney 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.

**28.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2022	16 March 2022
Independent Auditor's Report	31 October 2022	28 September 2022
Annual Audit Report	31 October 2022	28 September 2022

Source: Audit Scotland

## Timetable



**29.** 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 6](#) that has been discussed with management.

**30.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

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

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### Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	22nd June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30th June 2022
Latest date for final clearance meeting with the Chief Finance Officer	30 August 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	28 September 2022
Agreement of audited and unsigned annual report and accounts	28 September 2022
Issue of Annual Audit Report to those charged with governance.	28 September 2022
Signed Independent Auditor's Report	28 September 2022

Source: Audit Scotland

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## Audit fee

**32.** The proposed audit fee for the 2021/22 audit of Orkney IJB is £27,960 (2020/21: £27,330). In determining the audit fee, we have taken account of the risk

exposure of the Orkney IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**33.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.



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# Other matters

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## Internal audit

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

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

**35.** 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. We do plan to consider the findings of Internal Audit across the two areas of risk management and information & governance sharing.

## Independence and objectivity

**36.** 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. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**37.** The engagement lead (i.e. appointed auditor) for Orkney IJB 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 Orkney IJB.

## Quality control

**38.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**39.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**40.** 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.

# Orkney Integration Joint Board

## Draft Annual Audit Plan 2021/22

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)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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