

# East Lothian Integration Joint Board

Annual Audit Plan 2020/21



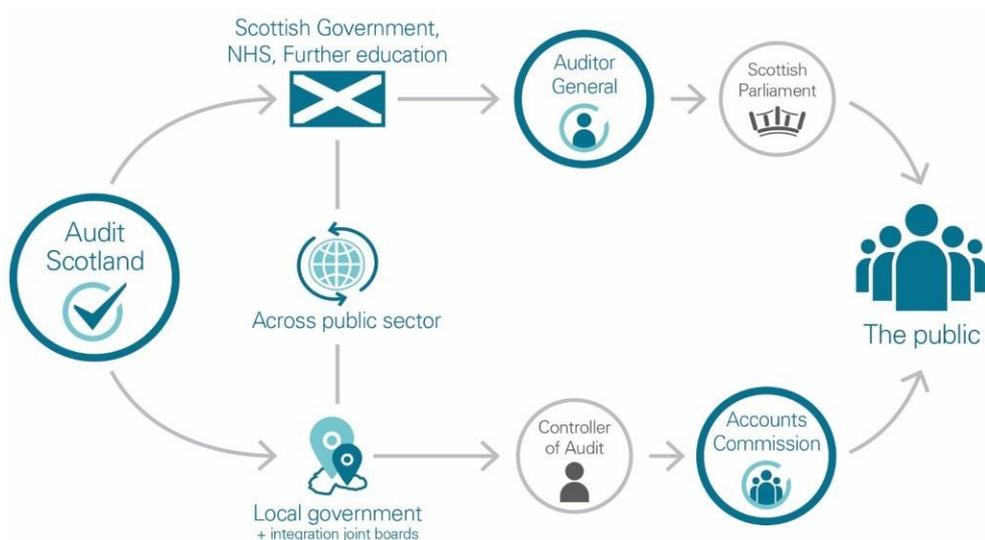
 AUDIT SCOTLAND

Prepared for the East Lothian Integration Board  
March 2021

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

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**1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

**2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

**3.** The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before COVID-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value

**5.** We aim to add value to the East Lothian Integration Joint Board (ELIJB) 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 intend to help the ELIJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

**6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for ELIJB. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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 external auditor assurances from the external auditors of the partner bodies (East Lothian Council and NHS Lothian).</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>The expenditure of the IJB is processed through the financial systems of East Lothian Council and NHS Lothian. There is a risk that non-IJB related expenditure is incorrectly coded to the IJB account codes.</p>	<p>Assurances to be provided to the IJB by East Lothian Council and NHS Lothian on the completeness and accuracy of transactions coded to the IJB codes.</p>	<ul style="list-style-type: none"> <li>Assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy, and allocation of the income and expenditure.</li> </ul>
<p><b>3 Risk of misstatement of independent family health service practitioners' expenditure</b></p> <p>Family Health Service (FHS) is accounted for in the EL IJB accounts as part of the NHS Lothian figures. National Services Scotland / FHS and NHS boards need to ensure they can demonstrate assurances over the FHS income and expenditure as reported in NHS Lothian accounts and subsequently, the EL IJB accounts.</p> <p>There is a risk of misstatement in the annual accounts if appropriate and adequate assurances cannot be obtained.</p>	<p>Assurance to be provided to the IJB by NHS Lothian on the FHS income and expenditure reported in NHS Lothian accounts and therefore the EL IJB accounts.</p>	<ul style="list-style-type: none"> <li>Assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy, and allocation of the income and expenditure.</li> </ul>
<p><b>4 Financial reporting of Covid-19</b></p> <p>Covid-19 funding and expenditure will impact on IJB with principal and agency receipts and payments. It is</p>	<p>Assurance will be sought from EL IJB accounts following the soon to be issued national guidance.</p>	<ul style="list-style-type: none"> <li>Review and audit of disclosures in the annual accounts.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	recommended (but not mandatory) that these items are disclosed in the notes to the accounts. Guidance is due to be issued to all IJBs in due course. There is a risk of material misstatement with regard to these.		

Source: Audit Scotland

**7.** As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 because the ELIJB's income consists of funding from its partner bodies (East Lothian Council and NHS Lothian). We place reliance on the assurances received from the external auditors of East Lothian Council and NHS Lothian (the partner bodies) in this regard.

## Reporting arrangements

**8.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), 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).

**9.** 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 officer(s) to confirm factual accuracy.

**10.** We will provide an independent auditor's report to ELIJB and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer, Chief Financial Officer (the 'proper' officer), members of the ELIJB Audit and Risk Committee, and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	30 April 2021	8 June 2021
Independent Auditor's Report	14 September 2021	14 September 2021
Annual Audit Report	14 September 2021	14 September 2021

Source: Audit Scotland

## Audit fee

**11.** The proposed audit fee for the 2020/21 audit of ELIJB is £27,330 (2019/20: £26,560). In determining the audit fee we have taken account of the risk exposure of ELIJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 30 June.

**12.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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.

## Responsibilities

### Audit and Risk Committee and Chief Financial Officer

**13.** Audited bodies have 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 successfully deliver their objectives.

**14.** The audit of the annual accounts does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**15.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**16.** 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 arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**17.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of ELIJB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how ELIJB will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**18.** We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of ELIJB as at 31 March 2021 and of the income and expenditure of ELIJB for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.

## Statutory other information in the annual accounts

**19.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**20.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**21.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**22.** We calculate materiality at different levels as described below. The calculated materiality values for ELIJB are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## Exhibit 3

### Materiality values

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% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2019/20.	£1.7 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 calculated performance materiality at 75% of planning materiality.	£1.3 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£86,000

Source: Audit Scotland

## Timetable

**23.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	By 30 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	By 30 June 2021
Latest date for final clearance meeting with Chief Financial Officer	30 August 2021
Issue of Letter of Representation and proposed independent auditor's report	By 3 September 2021
Agreement of audited unsigned annual report and accounts	By 3 September 2021
Independent auditor's report signed	14 September 2021
Issue of Annual Audit Report to those charged with governance	14 September 2021

## Internal audit

**24.** Internal audit is provided by East Lothian Council and is overseen by their Internal Audit Manager who is also the Chief Internal Auditor for the EL IJB. Internal audit work is also carried out by the NHS Lothian Internal Audit team. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK) 610 requires an assessment on

whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**25.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**26.** International Standards on Auditing require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**27.** We take audit assurance from the external auditors of East Lothian Council over the ledger information used to prepare the ELIJB's annual accounts. We will not place formal reliance on the work of internal audit to reduce our financial statements audit testing, but we will take account of all their work to inform our wider dimension audit responsibilities.

**28.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

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**29.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

### Financial sustainability

**30.** 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) sustainability. We will conclude on

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

### Financial management

**31.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how ELIJB has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Governance and transparency

**32.** 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. We will review, conclude and report on:

- whether ELIJB can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### Value for money

**33.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether ELIJB can demonstrate :

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### Best Value

**34.** Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on these arrangements.

### Independence and objectivity

**35.** Auditors appointed by the Accounts Commission or Auditor General 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.

**36.** The engagement lead (i.e. appointed auditor) for ELIJB 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 ELIJB.

## Quality control

**37.** International Standard on Quality Control 1 (ISQC1) requires that a system of quality control is 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.

**38.** 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.

**39.** 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.

# East Lothian Integration Joint Board

## Annual Audit Plan 2020/21

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