



# Edinburgh Integration Joint Board

External Audit Annual Plan 2020/21

January 2021



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# Introduction



## Introduction

1. This document summarises the work plan for our 2020/21 external audit of the Edinburgh Integration Joint Board (“the IJB”).
2. The core elements of our work include:
  - an audit of, and provision of a specific audit opinion on, the 2020/21 annual accounts and related matters;
  - consideration and reporting of IJB’s arrangements on the four audit dimensions: governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland.
3. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission’s work is governed mainly by the Local Government (Scotland) Act 1973.
4. Audit Scotland is an independent statutory body that provides the Audit Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Accounts Commission has appointed Azets as external auditor of the IJB for the six year period 2016/17 to 2021/22<sup>1</sup>. This document summarised the audit plan for 2020/21 and includes;
  - the responsibilities of Azets as the external auditor;
  - our audit strategy;
  - our planned audit work and how we will approach it;
  - our proposed audit outputs and timetable; and
  - background to Azets and your audit management team.

## Audit appointment

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We confirm that we complied with the Financial Reporting Council’s (FRC) Ethical Standard. In our professional judgement, the audit process is independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

## Auditor independence

<sup>1</sup> In October 2020, the Accounts Commission extended our audit appointment for one year through to the audit of the 2021/22 financial year to provide

continuity and stability in the current challenging environment.

## Adding value through the audit

9. All of our clients demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the IJB through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to any member of your audit team.

## Openness and transparency

11. This report will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Respective responsibilities of the auditor and the IJB



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## Respective responsibilities of the auditor and the IJB

### Auditor responsibilities

#### Code of Audit Practice

12. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Accounts Commission and it is a condition of our appointment that we follow it.

#### Our responsibilities

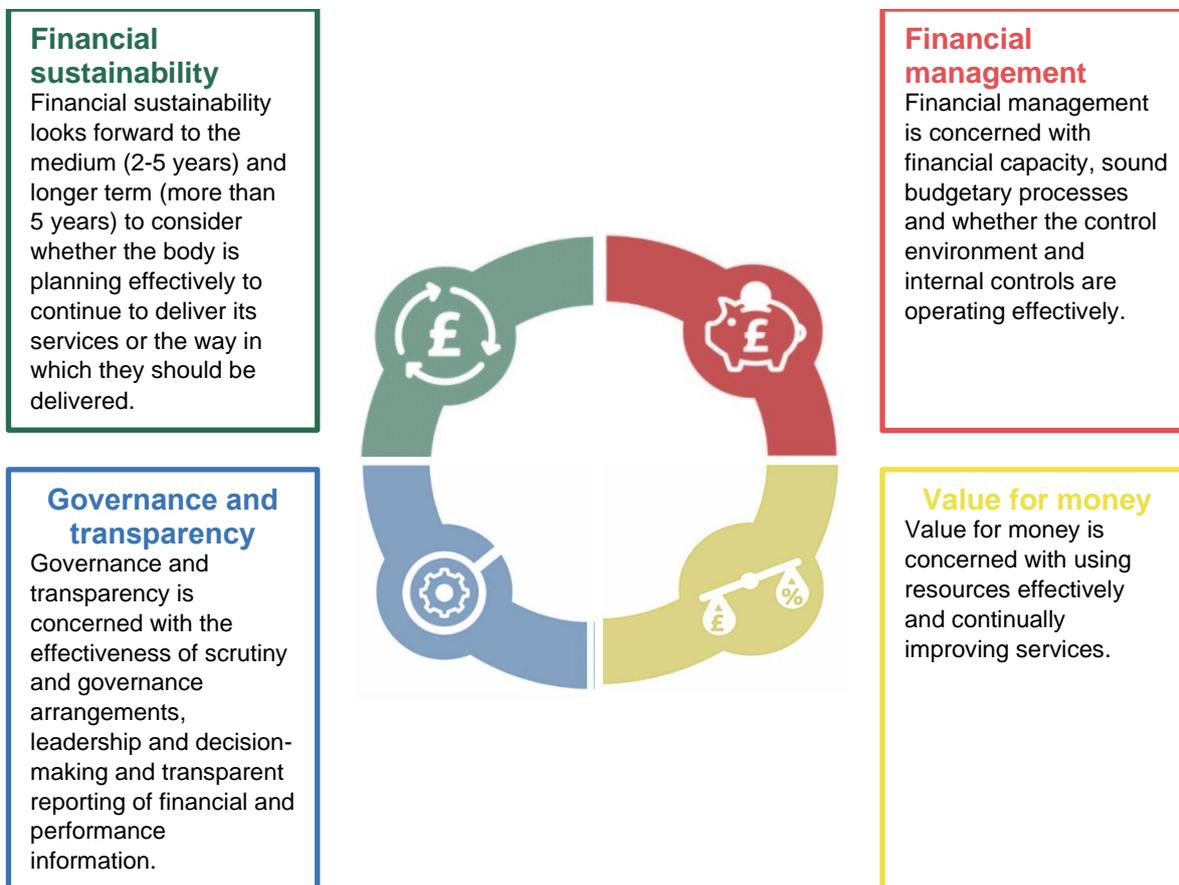
13. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK) (ISAs (UK)), professional requirements and best practice. These are to:
- undertake statutory duties, and comply with professional engagement and ethical standards;
  - provide an opinion on audited bodies' financial statements;
  - review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
  - notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
  - demonstrate compliance with the wider public audit scope.
14. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from

its responsibility to address the issues raised and to maintain an adequate system of control.

#### Wider scope audit work

15. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.
16. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

## Exhibit 1: Audit dimensions within the Code of Audit Practice



- Our assessment takes into account the size, nature and risks of the organisation. On this basis, we have concluded that application of the full wider scope is appropriate at the IJB.

### Best Value

- Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.
- Our work in respect of the IJB’s best value arrangements will be integrated into our audit approach, including our work on the wider scope audit dimensions as set out in the wider scope section of this plan.

### Strategic audit priorities for local government

- The Accounts Commission has set the following five strategic audit priorities that it expects auditors to consider in all work across local government:
  - Having clear priorities with a focus on outcomes, supported by effective long term planning.
  - Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities.
  - Ensuring that members and officers have the right knowledge, skills and support to design, develop and

- deliver effective services in the future.
    - Empowering local communities and involving them in the design and delivery of local services and planning for their local areas.
    - Reporting the organisation’s performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes.
21. Our consideration of these priorities will be integrated into our 2020/21 audit work. The extent to which we will report on these will be dependent of the findings of our work as it relates

to the four dimensions referred to above and is considered in section 5 of this plan.

### IJB responsibilities

22. The IJB has 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. The IJB’s responsibilities are summarised in Exhibit .

## Exhibit 2: IJB responsibilities

Area	The IJB’s responsibilities
<p><b>Financial statements:</b> Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>The IJB has responsibility for:</p> <ul style="list-style-type: none"> <li>• preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation</li> <li>• maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures</li> <li>• preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements</li> </ul>

Area	The IJB's responsibilities
<p><b>Financial sustainability:</b> Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>The IJB is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with any statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• How the organisation plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Financial management:</b> Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>The IJB is responsible for ensuring that financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The IJB is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>The IJB is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p><b>Governance and transparency:</b> Governance and transparency is concerned with the effectiveness of scrutiny and governance</p>	<p>The IJB is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness</p>

Area	The IJB's responsibilities
<p>arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The IJB is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p><b>Value for money:</b> Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The IJB has a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

# Audit strategy



## Audit strategy

### Risk-based audit approach

23. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that

apply to the IJB. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:

Discussions with senior officers	Our understanding of the sector, its key priorities and risks	Attendance at the Audit and Assurance Committee
Guidance from Audit Scotland	Discussions with Audit Scotland and other auditors	Discussions with internal audit and reviews of their plans and reports
Review of the IJB's corporate strategies and plans	Review of the IJB's corporate risk register	Consideration of the work of other inspection bodies as appropriate

24. Planning is a continuous process and our audit plans are therefore updated during the course of our audit to take account of developments as they arise.

International Standards on Auditing (UK (ISAs (UK))), the International Standard on Quality Control 1 (UK), the Ethical Standard, and applicable Practice Notes and other guidance issued by the Financial Reporting Council (FRC).

### Communication with those charged with governance

25. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the IJB that these communications will be through the Audit and Assurance Committee.

### Partnership working

27. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working with the public sector.

### Professional standards and guidance

26. We perform our audit of the financial statements in accordance with

### Audit Scotland

28. Although we are independent of Audit Scotland and are responsible for forming our own views and opinion, we do work closely with them

throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

29. Audit Scotland undertakes national performance audits on issues affecting the public sector. We will review the IJB's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We also consider the extent to which the IJB uses the national performance reports as a means to help improve performance at the local level.
30. During the year we may also be required to provide information to Audit Scotland to support the national performance audits or provide information to support the assessment of the impact of specified published performance audit reports.

## Internal Audit

31. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the IJB's total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the IJB is used efficiently and effectively.

## Shared systems and functions

32. The IJB relies on financial systems operating in City of Edinburgh Council and NHS Lothian to produce its financial reports. We will seek assurances on the operation of these two systems from the Azets audit of these two bodies.

## COVID-19 – impact on our 2020/21 audit strategy

33. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
34. We appreciate that different organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

## Remote working

35. As we do not know when the current restrictions will end, we are planning to carry out our 2020/21 audit remotely. As in 2019/20 we have the following arrangements in place:
  - All of our people have the equipment, technology and systems to allow them to work remotely, including secure access

to all necessary data and information.

- All of our staff are fully contactable by email, phone call and video-conferencing.
- All meetings are now held over Skype, Microsoft Teams or by telephone.
- We are keeping all of our staff fully up to date with the latest government guidance in order to keep everyone as safe as possible.

36. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

### Secure sharing of information

37. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

### Audit evidence

38. Working remotely does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means, for example, face to face meetings or access to systems and client premises.
39. Where required we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.
40. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

### Regular contact

41. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

### Audit reporting

42. It may be that the current circumstances lead to more modified opinions in auditor's reports than would typically have been the case in previous years.
43. Where necessary, we will engage with the Audit & Assurance Committee to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, at a future point yet to be determined, which could mitigate any modification either fully or in part.
44. Sufficient time should be set aside by the Audit & Assurance Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
45. Audit Scotland uses a system for electronic signatures (DocuSign) that it recommends all bodies use for signing annual accounts.
46. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories

have immediate access to a high quality PDF version of the accounts.

47. We propose using DocuSign in 2020/21 (as was used in 2019/20).

# Annual accounts



## Annual Accounts

### Introduction

48. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of the IJB's annual accounts.
49. The annual accounts of the IJB comprise the financial statements, the management commentary, remuneration report, governance statement and statement of responsibilities.

### Approach to audit of the financial statements

50. Our opinion on the financial statements will be based on:

#### Risk-based audit planning

51. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

#### An audit of key systems and internal controls

52. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements
53. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with

best practice and the IJB's own policies and procedures.

54. We will take cognisance of any relevant internal audit reviews of systems and controls.
55. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under extreme pressure leading to some internal controls being suspended or relaxed;
  - Procurement fraud or, normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
  - Weakened governance arrangements;
  - Stimulus packages to support individuals and businesses being provided quickly, possibly with a lower level of scrutiny and due diligence than has previously been in place;
  - Admin and finance staff being redeployed to operational areas; and
  - Staff working remotely may pose potential security risks e.g. when using personal devices and/or using removable devices to download data.
56. We will update the risk assessment following our evaluation of systems and controls and this will ensure that

we continue to focus attention on the areas of highest risk.

57. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to the IJB significant deficiencies in internal controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

#### Prevention and detection of fraud or error

58. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the annual accounts resulting from fraud or error.
59. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.
60. We will assess the susceptibility of the IJB's annual accounts to material misstatement, including obtaining an understanding of how fraud might occur, by:
- making enquiries of management as to where they consider there is susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and

- considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.

61. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

#### Laws and regulations

62. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the annual accounts. Our audit procedures include the following:
- Identification of the laws and regulations applicable to the IJB through enquiries with management, and from our knowledge and experience of the organisation and sector;
  - A focus on specific laws and regulations which we consider may have a direct material effect on the annual accounts or the operations of the IJB;
  - Reviewing minutes of relevant meetings;
  - Enquiring of management and IJB legal representatives the position in relation to litigation, claims and assessments; and
  - Performing detailed testing of transactions and balances.
63. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we

would become aware of non-compliance.

#### A final audit of the financial statements

64. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.
65. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code).

#### Changes to auditing standards

66. Changes were made to auditing standards in December 2019 as part of a suite of measures implemented by the Financial Reporting Council to improve public confidence and trust in audit. Areas affected include the procedures we undertake to document and justify our assessment of the reasonableness of management's accounting estimates and the application of going concern.
67. Our assessment of the risk of material misstatement, as outlined below, considered the inherent and control risk associated with accounting estimates and the going concern assessment. No additional risks have been identified at the planning stage in relation to these areas.

#### Independent auditor's report

68. Our opinion on whether the financial statements give a true and fair view of the financial position and its net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual accounts.

69. We also provide an opinion on the audited part of the remuneration report, annual governance statement and management commentary.

#### Materiality

70. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.
71. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
72. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.

	Materiality £million
<p><b>Overall materiality:</b> Our initial assessment is based on approximately 1.5% of the IJB's forecasted cost of delegated services in 2020/21. We consider cost of delegated services to be the principal consideration for the users of the accounts when assessing the performance of the IJB</p>	11.000
<p><b>Performance materiality:</b> using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.</p>	8.250

#### Key audit risks in the financial statements

74. Auditing standards require that we inform the Audit and Assurance Committee of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the Audit and Assurance Committee if our assessment changes significantly during the audit.
73. We will report any misstatements identified through our audit that fall into one of the following categories:
- All material corrected misstatements;
  - Uncorrected misstatement with a value in excess of £250,000; and
  - Other misstatements below £250,000 threshold that we believe warrant reporting on qualitative grounds.

## Exhibit 3 – Key audit risks in the financial statements

### Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the financial statements. This is treated as a presumed risk area in accordance with ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*.

75. In response to this risk we will review the IJB's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will review the key accounting estimates, judgements and decisions made by management.

### Revenue recognition

Under ISA (UK) 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements* there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the IJB could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

76. We have identified that for contribution received from the IJB's funding partners, the risk of revenue recognition can be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature.

### Risk of fraud in the recognition of expenditure

Practice Note 10 - *The Audit of Public Sector Financial Statements* recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.

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- A grey arrow originates from the left side of the text box, curves downwards, and then points horizontally to the right, indicating the response to the risk.
77. In response to this risk we will evaluate the significant expenditure streams and review the controls in place over accounting for expenditure. We will consider the IJB's key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

# Wider scope audit



## Wider scope audit

### Introduction

78. As described in section 2, the Code frames a significant part of our audit responsibilities in terms of four wider scope audit dimensions. As part of our annual audit we consider and report against these four dimensions:
- Financial sustainability
  - Financial management
  - Governance and transparency; and
  - Value for money
79. Our planned audit work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our work in prior years to develop an understanding of the IJB's key priorities and risks.
80. The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. The pandemic has highlighted the importance of many long-standing issues facing public sector bodies such as the need for good governance, openness and transparency, and effective longer-term planning to deliver better outcomes. The risks and challenges associated with these issues have become greater due to the pandemic.
81. In 2020/21, Audit Scotland has requested that external auditors focus on risks relating to governance and transparency, financial sustainability and counter-fraud arrangements in light of the impact of COVID-19. We will consider these risk areas in the context of our wider scope audit work and include commentary in our annual audit report as appropriate.
82. Exhibit 4 summarises the significant risk in relation to our wider scope audit responsibilities that we have identified at this stage of our audit planning. We have identified four significant risks to the wider scope of our audit.
83. Audit planning however is a continuous process and we will report any other identified significant risks, as they relate to the four dimensions, in our annual audit report.

## Exhibit 4 – Wider scope significant risks

### Financial sustainability

The IJB has been able to demonstrate arrangements for short term planning. However, as first report in our 2016/17 Annual Audit Report, the IJB has not developed a medium or long-term financial plan or strategy.

In October 2019, the Board considered a Financial Framework 2020-2023. This was intended to form the basis of a medium-term financial strategy, however further development of this was postponed due to the outbreak of the pandemic. An updated Financial Framework 2021-2024 was considered by the Board in December 2020, highlighting the significant financial challenges the IJB continues to face over the medium term.

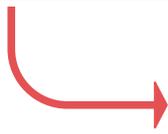
The Financial Framework outlines a savings requirement of £30.3million in 2021/22, £46.8million in 2022/23 and £63.5million in 2023/24. In acknowledgement of the need to evolve their thinking and approach to financial planning, the IJB has introduced an Integration and Sustainability Framework that will focus on how the IJB can direct the totality of its resources to best serve the people of Edinburgh in a sustainable manner. There is an urgent need to work with partners to develop this strategic approach to financial planning and address the savings requirements in an effective and sustainable manner. Work is ongoing to develop a savings and recovery programme for 2020/21 to bridge the transition into this new approach.

84. During our audit we will consider whether the IJB has developed adequate arrangements that allow it to demonstrate the financial sustainability of the services it directs. Our conclusion will be based on a review of the IJB's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets.

### Financial management: Forecasted year end position

In July 2020, the Board agreed the 2020/21 financial plan and the savings and recovery plan which set out how financial balance could be achieved in the year. By August however the year end forecasts provided by NHS Lothian and City of Edinburgh Council projected overspends of £10.9million. The latest forecast (October 2020) projected overspends of £17.896million. Both partners have commissioned work to further understand the financial impact of COVID-19.

As reported in our 2019/20 Annual Audit Report, interpreting these financial projections has been challenging given the differences in partners approach to reporting and the level of uncertainty over additional funding. The Government has committed to fully funding the financial impact of COVID-19, however, under further allocations are confirmed and received, this remains a significant risk to the IJB's financial position. This is of particular concern given the low level of reserves held by the IJB (£3.166million at 31 March 2020)

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85. During our audit we will consider the partnership approach taken to financial management and reporting across the IJB, the City of Edinburgh Council and NHS Lothian, and whether this supports sufficient scrutiny and challenge. We will consider the IJB's approach to identifying and responding to financial challenges that have occurred during the year.

## Governance and transparency

The IJB has continued to refine its governance arrangements since it was formally constituted in April 2016. In 2018/19 the IJB commissioned the Good Governance Institute to undertake a review of their systems and process, providing external and independent expertise. Their overall conclusion, as reported to the Board in December 2018, was that action was required to strengthen the IJB's governance. The report outlined a series of 18 recommendations and the IJB developed an action plan in response in April 2019.

As reported in our 2019/20 Annual Audit Report, whilst some progress has been made in addressing these recommendations, the pace of change has been slower than originally planned and further action is still required. This includes the finalisation of a Good Governance Handbook, review and definition of risk appetite, development of an integrated performance framework and an independent assessment of leadership and managerial capacity. The IJB has not formally reported on or considered progress against the action plan since its development in April 2019.

The Good Governance Institute's report echoes a number of the issues raised in the IJB's Statement of Intent, agreed by the Board in October 2017, and the subsequent recovery plan. The IJB has recognised the need to strengthen governance arrangements and define reporting processes to bring clarity to the partnership's activities and support the IJB in effectively discharging its duties. Whilst we recognise that the development and strengthening of the IJB's governance will be a continual process, requiring the commitment of IJB members over time, there is a risk of suboptimal performance and quality, and financial imbalance if sufficient action is not taken in a timely manner.

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86. In response to this risk we will consider the adequacy of governance arrangements in place across the partnership and progress made in addressing the issues raised by the Good Governance Institute. This will include consideration of the arrangement for monitoring and reporting on progress against the Transformation Programme.
  87. We will consider the governance arrangements in the context of the COVID-19 pandemic to ensure that these remained adequate throughout the period and supported effective partnership working. In addition, given the expected impact on the IJB's risk profile, we will consider the IJB's risk management processes and whether these support the timely identification and assessment of emerging and existing risks.

### Value for money: Performance Management Framework

Under the Integration Scheme, the IJB is responsible for implementing a comprehensive performance management system that allows for transparent reporting and appraises achievement against the strategic plan. One of the key strands outlined in the IJBs Statement of Intent (approved October 2017) and subsequent Transformation Programme is the development of a performance management framework.

In June 2019, the Board approved a new committee structure which included the establishment of the Performance and Delivery Committee. The committee has met on a bi-monthly basis since September 2019 (excluding the period of April to August 2020 when all Board and Committee meetings were suspended in response to the COVID-19 pandemic).

Delivery against local and national targets is presented to the Performance and Delivery Committee on a bi-monthly basis. However, as reported in 2019/20 Annual Audit Report, further work is required to refine the format and structure of performance reports to ensure these succinctly highlight areas of underperformance and support efficient scrutiny. In addition, work is still ongoing to develop and embed an integrated performance framework with measures that more clearly consider performance against the Strategic Plan.

Without a clear, effective performance management framework in place, there is a risk that the IJB cannot demonstrate continual improvement of services delivered and the achievement of value for money through appropriate use of resources.

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88. During the audit we will review performance monitoring arrangements to ensure these are appropriate, effective and in line with best practice. We will consider how the IJB plans to monitor the impact it has on outcomes and whether it can demonstrate that there is sufficient focus on improvement.
  89. The COVID-19 pandemic is expected to have a substantial impact on performance measures, particularly for services which are operating at a reduced level, been temporarily suspended or have adapted to new ways of working. We will satisfy ourselves that performance reporting in this context is timely, reliable, balanced, transparent and appropriate to users needs to support robust scrutiny and effective decision making.

# Audit outputs, timetables and fees



## Audit outputs, timetable and fee

### Audit outputs

The Local Authority (Capital Finance and Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021 (currently in draft) amend dates set in the Local Authority Accounts (Scotland) Regulations 2014. The amended dates apply to the accounts for the financial year 2020/21 and state that the annual accounts should aim to be approved by 31 October 2021. Audit Scotland has also proposed 31 October for 2020/21 as the provisional submission deadline.

We have set out below target months which align to the IJB's annual accounts timetable and 2021 schedule of Audit & Assurance Committee and Board meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Format	Description	Target month
External audit plan	Report	This report sets out the scope of our audit for 2020/21.	January 2021
Independent Auditor's Report	Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and management commentary.	October 2021
Annual Report to the IJB and the Controller of the Audit	Report	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	October 2021

90. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. progress against the action plans on a regular basis.
91. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review

## Audit fee

92. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
93. As auditors we negotiate a fee with the audited body during the planning process. The auditor remuneration element of the fee may be varied by up to 20% above the expected fee level where the expected level is below £26,000 to reflect the circumstances and local risks within the body.
94. The expected fee set by Audit Scotland for the 2020/21 audit of the IJB is £27,330 (£26,560 in 2019/20). We propose setting the 2020/21 audit fee at £29,592, which represents an uplift of 8% on the expected fee (12% on the auditor remuneration element). This uplift is in line with prior year and reflects the relative scale of the Edinburgh IJB and the significant audit work required to conduct a full wider scope audit under the Code of Audit Practice, including the related significant risks reported in this plan.
95. The audit fee for the prior and current year are set out in the table below.

	2019/20	2020/21
Auditor remuneration	£20,500	£21,112
Pooled costs	£1,780	£1,790
Performance audit and best value	£5,360	£5,650
Contribution to Audit Scotland costs	£1,100	£1,040
<b>Total fee</b>	<b>£28,470</b>	<b>£29,592</b>

96. We will take account of the risk exposure of the IJB and the management assurances in place. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

## Audit timetable

97. A summary timetable, including audit outputs, is set out as follows:

<b>JAN 21</b>	●	Planning meeting to inform the 2020/21 audit
<b>JAN 21</b>	●	Presentation of External Audit Plan to the Audit and Assurance Committee
<b>JUN 21</b>	●	Accounts presented for audit
<b>JUL 21</b>	●	Final audit visit begins
<b>OCT 21</b>	●	Annual audit report presented to Audit and Assurance Committee and submitted to the Controller of Audit

# Appendices



## Appendix 1: Azets

On 7 September 2020, the CogitalGroup of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

We have been external auditors within the public sector for at least fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE colleges. We also provide services to charities, schools, as well as private and public limited companies.

### Your Engagement Team

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#### Nick Bennett

##### Audit Partner

[nick.bennett@azets.co.uk](mailto:nick.bennett@azets.co.uk)

Nick has over 30 years' experience of public sector auditing and has been heavily involved in developing public sector accounting standards. Nick's experience and expertise is acknowledged both by clients and by other professionals involved right across the public sector.



#### Nicola MacKenzie

##### Manager

[nicola.mackenzie@azets.com](mailto:nicola.mackenzie@azets.com)

Nicola has over 6 years' public sector external audit experience, delivering both external and internal audit to our public sector clients.

Nicola will be your appointed Audit Manager and will work alongside Nick to deliver the audit engagement.

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## Appendix 2: Confirmation of independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by the IJB to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Azets and the IJB, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

## Appendix 3: Statement of understanding

### Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the IJB and Azets.

### Annual report and financial statements

We will require the annual report and financial statements and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant IJB staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statements strategy in advance of our final audit visit which sets out our expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

### Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the IJB's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and

used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the IJB during the course of the audit on matters having a material effect on the financial statements. This will take place by means of a letter of representation, which will require to be signed by the section 95 officer.

### Internal audit

It is the responsibility of the IJB to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

### Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

### Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the

Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if she knows or suspects that any person has engaged in money laundering or terrorist financing.

We require the IJB to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

## Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales and the Code of Audit Practice.

## Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

## Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants in England and Wales.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

## Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

## Agreement of terms

We shall be grateful if the Audit Committee would consider and note this statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



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We are an accounting, tax, audit, advisory and business services group that delivers a personal experience both digitally and at your door.  
**Accounting | Tax | Audit | Advisory | Technology**

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