

# Orkney Integration Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

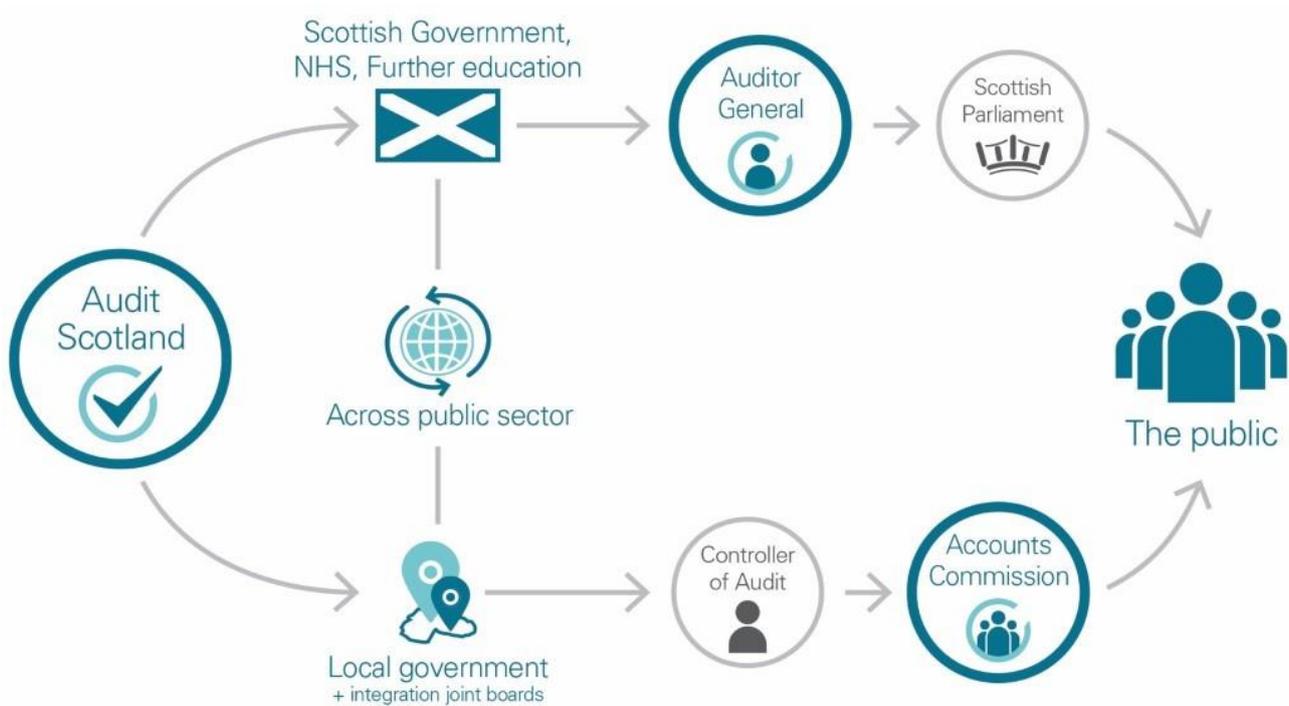
Prepared for Orkney Integration Joint Board Audit Committee

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.
- 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 (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 Orkney Integration Joint Board (the 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 intend to help the IJB 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 the IJB. 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 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>	<p>Agreement of balances and transaction to Orkney Islands Council and NHS Orkney financial reports.</p> <p>Service auditor assurances will be obtained from the auditors of the Orkney Island Council and NHS Orkney over the completeness, accuracy and allocation of the journal entries.</p>
<p><b>2 Risk of material misstatement caused by fraudulent expenditure recognition</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 resulted in the financial statements.</p> <p>We consider there to be a risk over the completeness, accuracy and occurrence of expenditure as the IJB is reliant on partner bodies allocating expenditure appropriately.</p>	<p>Assurances will be provided to the IJB by Orkney Islands Council and NHS Orkney on the completeness, accuracy and occurrence of transactions allocated to the IJB.</p>	<p>Service auditor assurances will be obtained from the auditors of the Orkney Island Council and NHS Orkney over the completeness, accuracy and allocation of the expenditure entries.</p>
<p><b>3 Annual accounts preparation</b></p> <p>In 2018/19 and 2019/20 the annual accounts required significant changes in order to comply with relevant guidance. We highlighted that a quality assurance process should be implemented to ensure the content of the annual accounts is clear, concise and consistent.</p> <p>Additional disclosures and commentary in the annual accounts may need to be considered to reflect the impact of Covid-19.</p> <p>There is a risk that the performance of the IJB and the impact of Covid-19 is not reported in a transparent manner.</p>	<p>The Senior Management Team will scrutinise and amend the annual accounts, as appropriate, prior to the draft being submitted within specified timescales.</p>	<p>We will liaise with key officers to ensure a quality assurance process is in place and the accounts are of sufficient quality to allow the audit to progress in line with planned timescales.</p>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>4 Set aside budget</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.</p> <p>NHS Orkney formally delegated the responsibility for the set aside budget to the IJB for the first time in 2020/21. The £7.4 million indicative set aside budget has been used to commission services of this value from NHS Orkney.</p> <p>There is a risk that although the unscheduled care budget is delegated to the IJB the arrangement is not working as intended.</p> <p>There is also a risk that set aside services are not recorded appropriately and the amount recorded in the annual accounts does not reflect actual hospital use in 2020/21.</p>	<p>The IJB continues to work with NHS Orkney in developing the set aside arrangements.</p>	<p>Review of the set aside arrangements in place.</p> <p>Engage with officers to ensure a robust mechanism has been developed to quantify the set aside income and expenditure.</p> <p>Review the financial reporting of set aside transactions for appropriateness.</p>
<p><b>5 Projected financial outturn</b></p> <p>The December 2020 financial monitoring report indicates that the IJB will have a projected overspend of £2.926 million at the year-end as a result of additional costs in relation to implementation of the Children and Families joint inspection improvement plan and Covid-19.</p> <p>The projected overspend does not include any under or overspends related to the unscheduled care budget which is reported separately.</p> <p>There is risk that expenditure and income are not in line with expectations, leading to an unplanned surplus or deficit.</p>	<p>Correspondence with both partners in relation to obtaining additional funds if required as per the integration scheme.</p> <p>The financial position is monitored by management and those charged with governance.</p>	<p>Ensure budget monitoring is robust and accurately reflects the financial position.</p> <p>Confirmation of compliance with the Orkney Integration Scheme.</p> <p>Review of recovery plans put in place by partners for reasonableness.</p>
<p><b>6 Potential misstatement of payments to primary care contractors</b></p> <p>Payments to primary care contractors are a material and complex account area.</p> <p>The service auditor issued qualified audit opinions in 2019/20 across the four primary care payment streams which reflected an absence of evidence to confirm the operation of a range of expected controls.</p>	<p>Effective budget monitoring by management.</p> <p>Payments made to primary care contractors are reviewed by management and unexpected variances are investigated.</p>	<p>Consideration of 2020/21 service auditor’s report covering the financial ledger, IT contracts and Practitioners Services Division under ISA 402.</p> <p>Service auditor assurances will be obtained from the auditors of the NHS Orkney over the completeness, accuracy and allocation of the primary care expenditure entries.</p>

	Audit Risk	Source of assurance	Planned audit work
	<p>While recommendations were agreed, it is uncertain to what extent they have been implemented and improvements made.</p> <p>There is a risk of misstatement in the annual accounts due to the use of some estimates and uncertainty about the extent of improvement made by NHS NSS in responding to weaknesses reported by the service auditor in June 2020.</p>		
<b>Wider dimension risks</b>			
<b>7</b>	<p><b>Budget setting</b></p> <p>In previous years the IJB budget has not been formally approved by members due to uncertainty around funding allocations from the partner bodies. The IJB has not yet received a formal offer from either Orkney Islands Council or NHS Orkney regarding the 2021/22 budget.</p> <p>There is a risk that these figures will not be finalised before the start of the 2021/22 financial year and the IJB will be operating without a formally agreed budget.</p>	<p>Ongoing discussions between the IJB and partner bodies to obtain the most up to date the budget position.</p> <p>The IJB will prepare an indicative budget for Board approval.</p>	<p>Ongoing monitoring of budget setting in 2020/21 for future financial years.</p>
<b>8</b>	<p><b>Financial sustainability</b></p> <p>At the start of the year three-year efficiency savings of £4.2 million had been informally agreed by Partners.</p> <p>By December 2020 only £0.114 million had been achieved. The pandemic has limited the IJB's capacity to plan for, and realise savings.</p> <p>Medium term financial planning will have to be revised to determine a realistic level of savings to set as a target.</p> <p>There is a risk that the IJB may not be able to deliver a break-even outturn in 2020/21 and beyond.</p>	<p>There have been finance workshops looking at ways to achieve savings, some efficiencies have been formally agreed and there is further work being carried out to look at further efficiencies.</p>	<p>Review of ongoing budget monitoring and progress on meeting savings targets.</p> <p>Review of revised financial plans and the development of savings options at the IJB.</p>
<b>9</b>	<p><b>Integration Scheme Review</b></p> <p>A review of the Integration Scheme, in accordance with statutory regulation requirement, was planned for 2018/19 however, it has been delayed.</p>	<p>There is a review underway of the overall integration scheme within financial year 2020/21 whereby this issue will be highlighted.</p>	<p>Review of the governance and scrutiny of any changes made to the integration scheme.</p> <p>Confirmation of proposed changes to the integration scheme providing comment in our annual audit report.</p>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>As part of this review the IJB should review section (2.10.7.5) which states that any additional payments paid by partner bodies may be deducted from future years' funding.</p> <p>There is a risk that the Integration Scheme is out of date and not complying with regulations.</p>		
<p><b>10 Changes in leadership</b></p> <p>The IJB has an interim Chief Officer in place and has implemented interim arrangements to cover three other vacancies within the senior management team.</p> <p>The IJB is taking steps to recruit key members of staff. However, there are current national challenges in recruitment and there is therefore a risk that these posts may take time to fill.</p>	<p>A recruitment campaign is ongoing for the Chief Officer post.</p> <p>Interim arrangements for the Head of Health &amp; Community Care, Head of Children's Services and Chief Social Work Officer are in place. A recruitment campaign is planned for 2021/22.</p>	<p>We will monitor progress with the recruitment process and consider the governance processes around the appointment.</p> <p>We will consider whether the induction and handover processes are appropriate.</p> <p>We will consider the impact of interim arrangements on governance processes.</p>
<p><b>11 Performance management and best value</b></p> <p>The IJB should have effective arrangements for managing performance and securing best value. In line with the Public Bodies (Joint Working) (Scotland) Act 2014 the IJB publishes an annual performance report.</p> <p>The management information is only provided to those charged with governance on an annual basis and 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>Work is being undertaken to agree the details required in relation to regular Performance Reporting with members of the IJB, to ensure robust monitoring and governance are adhered to and used to inform planning.</p> <p>The performance report will include an assessment of performance in relation to best value, including information about how the planning and delivery of services in pursuance of integration functions have contributed to securing best value.</p> <p>There has been a successful recruitment for a Performance and Planning Officer who will be undertaking this work.</p>	<p>Review of action taken to develop a performance management framework which incorporates regular reporting to those charged with governance.</p> <p>Consider the IJB's best value arrangements and whether there is appropriate scrutiny of best value by those charged with governance.</p>

	Audit Risk	Source of assurance	Planned audit work
<b>12</b>	<p><b>Risk management</b></p> <p>The risk management strategy indicates that the risk register should be reviewed at least on a six-monthly basis. However, the current risk register was last updated and presented to the Board in December 2019.</p> <p>There is a risk that Board members are not up to date with significant risks, the associated mitigating actions, and, ultimately, the basis for key decisions.</p>	<p>The risk management strategy was refreshed and approved at the Jan Board meeting. The risk register will be presented to the IJB in April and will be presented on a quarterly basis thereafter.</p>	<ul style="list-style-type: none"> <li>We will monitor progress in reviewing the risk management process, providing comment in our annual audit report 2020/21.</li> </ul>

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 as we feel the opportunity for fraudulent recognition of income is limited due to the nature of income at the IJB.

## 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 officers to confirm factual accuracy.

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

**11.** We will provide the Accountable Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit. All dates below may be subject to change due to uncertainty and additional challenges arising from home working.

## Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2021	10 March 2021
Annual Audit Report including ISA 260 requirements	31 October 2021	TBC
Signed Independent Auditor's Report	31 October 2021	TBC

Source: Audit Scotland

## Audit fee

**12.** The proposed audit fee for the 2020/21 audit of the IJB is £27,330 (19/20: £26,560). In determining the audit fee, we have taken account of the risk exposure of the IJB, 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 on 25 June 2021.

**13.** 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 Committee and Accountable Officer (or equivalent)

**14.** 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.

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

### Appointed auditor

**16.** 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.

**17.** 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

**18.** 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 the IJB 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 the IJB 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.

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

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of Orkney Integration Joint Board as at 31 March 2021 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**20.** 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.

**21.** 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

**22.** 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.

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

### 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 of the latest audited accounts for 2019/20.	£0.60 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 50% of planning materiality.	£0.30 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 3% of planning materiality.	£0.02 million

Source: Audit Scotland

### Timetable

24. 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	23 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	25 June 2021
Latest date for final clearance meeting with Chief Finance Officer	30 September 2021
Agreement of audited unsigned annual report and accounts and issue of Annual Audit Report to those charged with governance	31 October 2021
Independent auditor's report signed	31 October 2021

### Internal audit

25. Internal audit is provided by Azets. 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). We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**26.** International Auditing standards 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 to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**27.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following area:

- Corporate governance.

### Audit dimensions

**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.** The appointed auditor's annual conclusions on these four dimensions 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 carry out work and 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
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

## 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 the IJB 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 the IJB 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 the IJB 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. As part of our 2020/21 audit we will review and report on how the IJB demonstrates that it is meeting the best value duty and their arrangements for doing this.

## 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 for the 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 the IJB.

## Quality control

**37.** International Standard on Quality Control (UK) 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.

# Orkney Integration Joint Board

## Annual Audit Plan 2020/21

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