

# West Lothian Integration Joint Board

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for West Lothian Integration Joint Board

February 2023

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2022/23 external audit of West Lothian Integration Joint Board (WLIJB). The main elements of our work include:

- an audit of the annual accounts, and provision of an Independent Auditor's Report
- an audit opinion on other statutory information published within the annual report and accounts including the Management Commentary by the Chief Officer, Statement of Responsibilities, Remuneration Report and the Annual Governance Statement
- consideration of arrangements in relation to wider scope areas and Best Value.

## Audit Appointment

**2.** We are pleased to be appointed as the external auditor of WLIJB for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

**3.** In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

**4.** The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

## Adding value

**5.** We aim to add value to WLIJB through our external audit work by being constructive and forward looking, by attending meetings of the Audit, Risk and Governance Committee and by recommending and encouraging good practice. In so doing, we will help WLIJB promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and WLIJB

6. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and WLIJB. Key responsibilities are summarised below.

### Auditor responsibilities

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

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

### West Lothian Integration Joint Board responsibilities

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

10. WLIJB has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable the Integration Joint Board to deliver its objectives.

# Financial statements audit planning

## Materiality

**11.** The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2022/23 audit

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

## Exhibit 1

### 2022/23 Materiality levels for West Lothian Integration Joint Board

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of WLIJB’s operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£6.1 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£4.6 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.	£0.250 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of WLIJB, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

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

**15.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Agreement of balances and transactions to West Lothian Council and NHS Lothian financial reports / ledger / correspondence.</li> <li>• Auditor assurances will be obtained from the auditors of West Lothian Council and NHS Lothian over the completeness, accuracy and allocation of income and expenditure.</li> <li>• Review of significant adjustments at year-end.</li> <li>• Review of financial monitoring reports during the year.</li> </ul>

Source: Audit Scotland

**16.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for WLIJB because the IJB does not raise any revenue directly. All funding for the IJB is agreed by West Lothian Council and NHS Lothian as part of their budgeting processes and can be agreed to third party documentation. This limits the opportunity for manipulation

**17.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for WLIJB because expenditure is incurred and processed by the partner bodies. The risk of a material misstatement arising from fraudulent manipulation is therefore deemed to be low.

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

# Wider Scope and Best Value

## Introduction

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

**20.** The Code provides for the Auditor General and the Accounts Commission to specify an alternative audit approach where an audited body might be considered less complex due to its size and its limited financial activity. The guidance sets out the criteria for auditors to use to determine if a body is less complex and the audit approach to be adopted in such circumstances. Having considered the guidance, we are content that the WLIJB meets the definition of a 'less complex' body.

**21.** Our audit of the wider-scope and Best Value for the WLIJB will include:

- a review of the Annual Governance Statement
- concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term, and
- considering how the WLIJB demonstrates that it is meeting its Best Value responsibilities.

## Wider scope risks

**22.** We have identified a wider scope audit risk in the area set out in [Exhibit 3](#).

This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

## Exhibit 3

### 2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
<p><b>Financial Sustainability</b></p> <p>Health boards and councils continue to face significant financial pressures from funding levels and increasing demands on services.</p>	<ul style="list-style-type: none"> <li>• Regular monitoring and reporting to the Integration Joint Board on the financial position, including regular review of the</li> </ul>	<ul style="list-style-type: none"> <li>• Review financial monitoring reports including the MTFP (Medium Term Financial Plan) to assess the financial position, including progress in realising efficiency savings.</li> </ul>



Description of risk	Sources of assurance	Planned audit response
There is a risk that WLIJB, in partnership with NHS Lothian and West Lothian Council may not be able to identify sustainable savings measures or meet cost pressures as they arise.	medium-term financial plan.	<ul style="list-style-type: none"> <li>review of the Joint Board's year-end reserves position, including the earmarking of reserves.</li> </ul>

Source: Audit Scotland

## Duty of Best Value

**23.** Auditors have a duty to be satisfied that bodies that fall within section 106 of the 1973 Act have made proper arrangements to secure Best Value. We will consider how WLIJB demonstrates that it is meeting its Best Value responsibilities and we will report our findings as part of our Annual Audit Report.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**24.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**25.** 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.

**26.** We will provide an independent auditor's report to WLIJB, and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide WLIJB and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**27.** [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

## Exhibit 4 2020/21 Audit outputs

Audit Output	Target date	Audit, Risk and Governance Committee Date
Annual Audit Plan	24 February 2023	8 March 2023
Independent Auditor's Report	30 September 2023	tbc, early September 2023
Annual Audit Report	30 September 2023	tbc, early September 2023

Source: Audit Scotland



## Timetable

**28.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**29.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

**30.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

## Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	27 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	By 30 June 2023
Latest date for final clearance meeting with the Chief Finance Officer	By 18 August 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	By 25 August 2023
Agreement of audited and unsigned annual report and accounts	By 25 August 2023
Issue of Annual Audit Report to those charged with governance	By 25 August 2023
Signed Independent Auditor's Report	By 30 September 2023

Source: Audit Scotland

## Audit fee

**31.** In determining the audit fee, we have taken account of the risk exposure of WLIJB and the planned management assurances in place. The proposed audit fee for 2022/23 is £31,470 (2021/22: £27,960).

**32.** Our fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

**33.** In setting the fee for 2022/23 we have assumed that WLIJB continues to have effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**34.** While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**35.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

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

**37.** The appointed auditor for WLIJB 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 WLIJB.

**38.** The appointed auditor for the WLIJB will be changing, effective from 31 March 2023. Audit Scotland has put in place a hand over process to ensure a smooth transition. WLIJB will be advised of the new appointed auditor in due course.

## Audit Quality

**39.** Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

**40.** Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

**41.** ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

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

**43.** 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.

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# Appendix 1. Your audit team

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**44.** The audit team involved in the audit of WLIJB have significant experience in public sector audit.

**Mark Laird**

Senior Audit Manager

mlaird@audit-scotland.gov.uk

Mark Laird has over 12 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

**Brian Battison**

Audit Manager

bbattison@audit-scotland.gov.uk

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

**45.** The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

# West Lothian Integration Joint Board

## Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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



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