



Dumfries and Galloway
Integration Joint Board
Audit and Risk Committee

10th June 2021

This Report relates to
Item 5 on the Agenda

External Audit Plan 2020/21

Paper presented by Joanne Brown, Grant Thornton

For Noting

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List of Background Papers:	Not applicable
Appendices:	Appendix 1 – Final D&G IJB Audit Plan 2020/21 Appendix 2 – PSA Informing the Audit Risk Assessment

1.	Introduction
1.1	This audit plan for the financial year ending 31 March 2021 sets out our risk-based audit approach. This plan is reported to those charged with governance (Audit and Risk Committee) on behalf of the Board
1.2	The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Risk Committee under auditing standards. Responses within have been provided by IJB management.
2.	Recommendations
	<ul style="list-style-type: none"> The IJB Audit and Risk Committee is asked to note the External Audit Plan and the Informing the Risk Assessment document for the financial year ending 31 March 2021.
3.	Background and Main Report
	<u>External Audit Plan</u>
3.1	This document provides an overview of the planned scope and timing of the external audit of Dumfries and Galloway Integration Joint Board (“the IJB”) for those charged with governance.
	<u>Informing the Risk Assessment</u>
3.2	Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Risk Committee. ISA(UK) emphasises the importance of two-way communication between the auditor and the Audit and Risk Committee and also specify matters that should be communicated.
3.3	This two-way communication assists both the auditor and the Audit and Risk Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Risk Committee and supports the Audit and Risk Committee in fulfilling its responsibilities in relation to the financial reporting process.
4.	Conclusions
4.1	As detailed within.
5.	Resource Implications
5.1	There are no resource implications identified.
6.	Impact on Integration Joint Board Outcomes, Priorities and Policy
6.1	The development of robust External Auditing arrangements is a fundamental requirement of our overall governance arrangements.
7.	Legal and Risk Implications
7.1	There are no legal or risk implications identified.

8.	Consultation				
8.1	Katy Kerr, Chief Finance Officer has been consulted within the development of this Report.				
9.	Equality and Human Rights Impact Assessment				
9.1	As this report does not propose a change in policy/strategy/plans, no impact assessment has been carried out.				
10.	Glossary				
10.1	All acronyms have been set out in full the first time they appear in a paper with the acronym following in brackets.				
	<table><tr><td>ISA</td><td>International Standards of Auditing</td></tr><tr><td>IJB</td><td>Integration Joint Board</td></tr></table>	ISA	International Standards of Auditing	IJB	Integration Joint Board
ISA	International Standards of Auditing				
IJB	Integration Joint Board				

Dumfries and Galloway Integration Joint Board (IJB) Financial year ending 31 March 2021

External Audit Plan

Audit and Risk Committee (and the Controller of Audit, once finalised on completion of our planning)

April 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the organisation or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Plan overview

This audit plan for the financial year ending 31 March 2021 sets out our risk based audit approach. This plan is reported to those charged with governance (Audit and Risk Committee on behalf of the Board). Planning is a continuous process and we will continue to review our risk assessment and planned approach throughout the year.

03

Wider Scope Audit

In accordance with the Code we have identified wider scope risks, at the planning stage and will conclude on these during the audit.

Risks have been identified in relation to the following areas:

- Financial sustainability;
- Governance and transparency; and
- Demonstrating best value.

01

Materiality

We have calculated planning materiality using budgeted gross expenditure for 2020-21 of £398.8 million resulting in the following:

- £7.9 million planning materiality. Performance materiality of £5.5 million is based on 70% of planning materiality.
- We have capped our trivial threshold at £250,000 in line with Audit Scotland guidance.
- Lower materiality of £5,000 will be used on the Remuneration Report.
- We will revisit our materiality throughout our audit including updating to reflect the unaudited financial statements.

04

Other audit matters

We summarise other audit matters for the Audit and Risk Committee's awareness. This includes:

- The revised ISA 540 standard relating to accounting estimates and the additional considerations required at planning in relation to this standard. Based on our review of the prior year financial statements we do not anticipate that this will be applicable to the IJB in 2020/21. We will review this assessment again on receipt of the unaudited accounts.
- In accordance with the Code and planning guidance we also complete and submit a number of deliverables in year including sharing intelligence with Audit Scotland.
- Consideration of going concern in accordance with Practice Note 10.

02

Financial statement audit risks

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240); and
- Risk of fraud in expenditure recognition (cut-off).

We have rebutted the risk of fraud in revenue recognition as all funding is a result of partner contributions from NHS Dumfries and Galloway and Dumfries and Galloway Council. While material, under the Integration Scheme funding arrangements, funding is agreed at the start of the financial year with any deviations agreed between the IJB and funding partners.

05

Our Audit Fee

Audit fees were shared by Audit Scotland with the IJB in December 2020. Our fee agreed with the Chief Finance Officer is:

- £27,330 which is set at the baseline fee.
- Audit fees are paid to Audit Scotland who in turn pay Grant Thornton.
- We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Dumfries and Galloway Integration Joint Board (“the IJB”) for those charged with governance.

We are appointed by the Auditor General as the external auditors of the IJB for the 6 year period (2016/17 until 2021/22).

Respective responsibilities

Audit Scotland has issued a document entitled Code of Audit Practice (‘the Code’) dated 2016 covering this audit appointment period. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the IJB are summarised in Appendix 1 of this plan. We draw your attention to this and the Code.

Scope of our audit

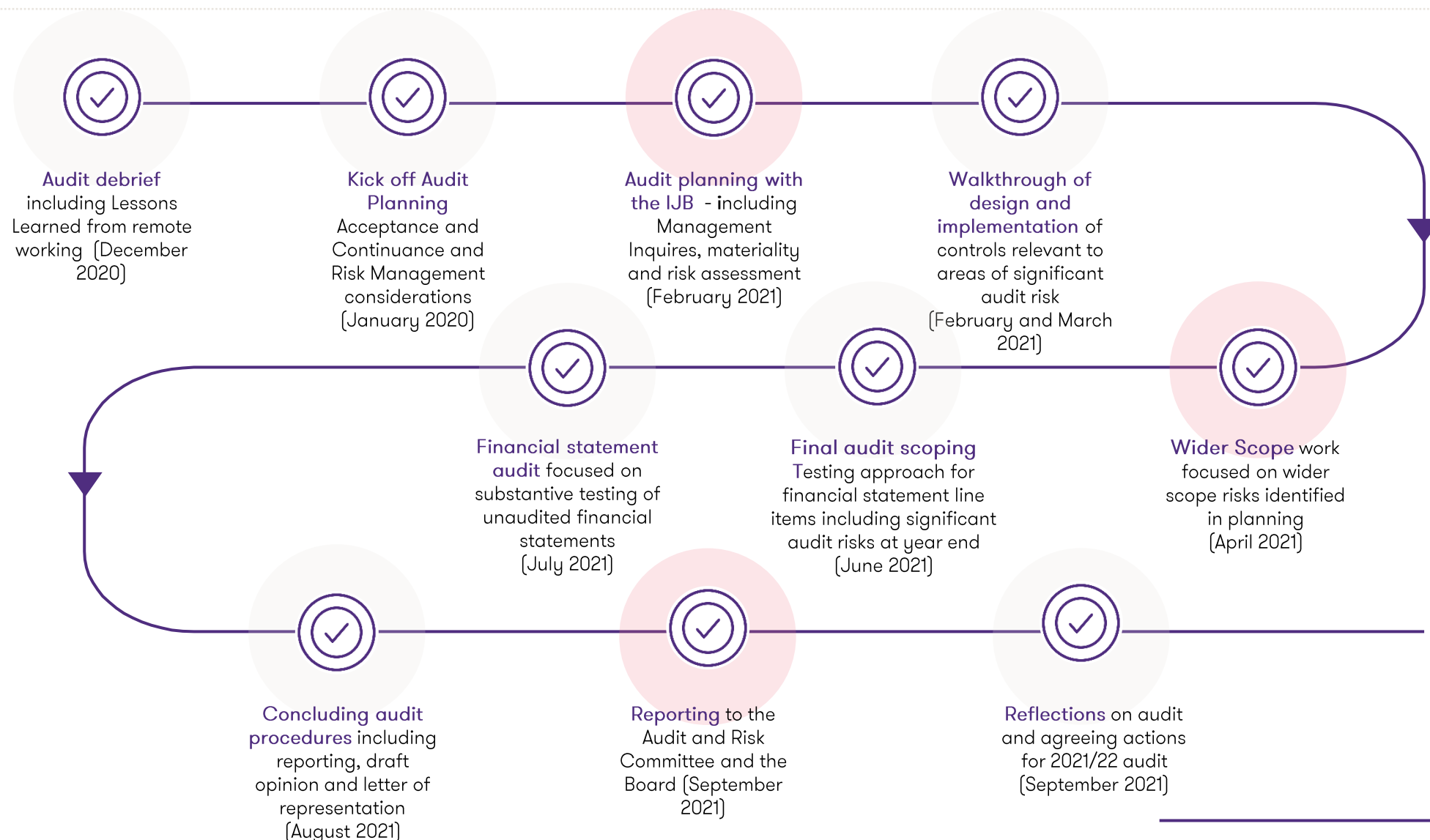
The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the IJB’s financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Risk Committee).

The audit of the financial statements does not relieve management or the Audit and Risk Committee of your responsibilities. It is the responsibility of the IJB to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We will consider how the IJB is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the IJB and is risk based.

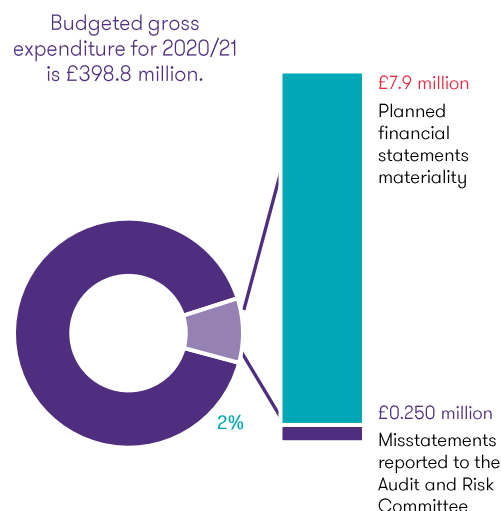


Audit approach



Materiality

Financial statement materiality is determined based on a proportion of the IJB's total expenditure. We have determined **planning materiality** to be £7.9 million for the IJB, which equates to approximately 2% of budgeted gross expenditure for the IJB for 2020/21.



Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 70% of planning materiality (£5.5 million) which is a decrease on the prior year rate of 75%. This is based on our understanding of the IJB, having no material corrected or unadjusted errors in the prior year but reflecting the perceived increased risk of material misstatement due to error within the financial statements as a result of COVID-19 and its impact on the IJB.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

On this basis we apply a separate **lower materiality level** (£5,000) to the Remuneration Report. This is set at a lower level in order to ensure greater precision in this area of the financial statements.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are '**clearly trivial**' to those charged with governance. We have determined this threshold to be £250,000 being the maximum threshold prescribed by Audit Scotland.

We will update our materiality based on the unaudited 2020/21 financial statements once received in late June 2021. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.

Significant audit risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Management Override of Controls (as required within Auditing Standards – ISA 240)

Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the IJB's internal controls, related to individual transactions.

Our work focuses on estimates and judgements as set out within the financial statements, including accounting policies. In addition, we specifically consider cut-off (of expenditure and income) and the use of manual journals during the year and in creating the financial statements where controls may be overridden by management.

Risk of Fraud in Expenditure (as recommended in FRC Practice Note 10 for Public Sector entities)

As set out in the Financial Reporting Council (FRC)'s Practice Note 10 revised (PN10 revised) which applies to Public Sector entities, auditors of public bodies should consider the risk of misstatement in expenditure recognition. The IJB's material expenditure stream relates to Health and Social Care costs reflecting the services commissioned from NHS Dumfries and Galloway and Dumfries and Galloway Council and reflects the costs incurred by these parties in delivering those services. The Integration Scheme provides that any underspend is retained by the relevant partner body delivering the service, i.e. Health Board/Council, unless agreed otherwise by the IJB. Likewise, any overspend incurred in delivering the service is borne by the Health Board/Council unless agreed otherwise with the IJB and the other partner. There is therefore limited incentive for either of these parties to under or overstate costs incurred by the IJB.

We therefore focus our risk on year end cut-off arrangements, where it may be advantages for management to show a more favourable financial position in the context of reporting to Scottish Government and the need to achieve the financial targets set, particularly given increasing patient demand and costs pressures that the IJB is facing.

Significant audit risks (continued)

Auditing standards require us to consider the **risk of fraud in Revenue**. This is considered a presumed risk in all entities. The IJB's income consists of partner funding contributions from NHS Dumfries and Galloway and Dumfries and Galloway Council. While material, under the Integration Scheme funding arrangements, funding is agreed at the start of the financial year with any deviations agreed between the IJB and the funding partner. Total revenue and receivables at the year end are agreed to third party confirmation (as audited information as we are the external auditors of NHS Dumfries and Galloway and Dumfries and Galloway Council). As such, we consider there to be a lower opportunity to materially misstate this revenue stream. We have therefore rebutted the risk of fraud in revenue recognition in full for the IJB.

We have considered the overall **impact of Covid-19 on the Financial Statements**, in particular whether there is a financial statement level significant risk, whether there is a significant risk relevant to specific balances or line items e.g. valuation of short term debtors, whether any risk factors should be considered when determining the audit strategy and designing audit tests and whether there are any audit risks due to the impact of the pandemic on the financial statements. We have concluded that there is no additional significant risk, in addition to those already captured, in relation to the impact of COVID-19 on the financial statement as a result of our consideration.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Report to those Charged with Governance and the Controller of Audit in concluding our audit in September 2021.

Wider scope risks identified in planning

As set out in the Code we are required to consider significant wider scope risks that impact on the IJB. Where we identify risks, similar to financial statement audit risks, we are required to devise a suitable programme of testing to allow us to conclude on the IJB's arrangements. There are four wider scope dimensions we consider: financial management, financial sustainability, governance and transparency and value for money (including Best Value for Local Government bodies). Wider scope risks are a matter of auditor judgement, and what we judge to be significant, considered on a risk basis. In addition to wider scope risks there may be other areas that Audit Scotland require us to consider. These requirements are set out in the planning guidance (2020/21). Where relevant we refer to them here, or within our wider audit plan.

Our previous Annual Reports have highlighted some of the challenges facing the IJB including the level of savings the IJB needs to deliver year on year which is becoming increasingly difficult, the funding available to allow the IJB to achieve its strategic objectives and the IJB's ability to deliver and transform services. Our wider knowledge and experience of the IJB has shaped our assessment of risk, as related to our 2020/21 external audit and we have identified the following wider scope risks:

Financial Sustainability

Consideration of the medium to long term **financial sustainability** of the IJB. We will consider how Covid-19 has impacted on the IJB's financial strategy and understand particular areas of cost pressures identified during the year.

We will focus on in-year financial performance and review the extent to which savings delivered during 2020/21 represent sustainable recurring savings. We will understand the impact on the IJB of additional Covid-19 expenditure and how these have been funded in-year and any future year financial implications. We will review the IJB's medium term financial plan.

Wider scope risks identified in planning (continued)

Governance and Transparency

As set out in the planning guidance we will consider how the IJB has maintained **good governance** throughout the year, focused on any new governance arrangements introduced, the openness and transparency of decision making and how governance has evolved during the Covid-19 pandemic.

Demonstrating Best Value

We will review the work done by the IJB during 2020/21 in relation to transformation of services as well as assess the IJB's progress against service transformation plans.

We will review the ways in which the IJB are evaluating their performance and how they seek assurance that they are achieving **Best Value**.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and planning guidance:

- We audit parts of your Remuneration Report in your Annual Report and check whether these sections of your Annual Report have been properly prepared (opinion)
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion)
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We consider our other duties under the Code and planning guidance (2020/21), as and when required, including:
 - Supporting Audit Scotland's reporting to the Accounts Commission;
 - Contributing to Audit Scotland Performance Reports;
 - Providing regular updates to Audit Scotland to share awareness of current issues across our audit clients;
 - Notify Audit Scotland of any cases of money laundering or fraud; and
 - Contribute to Audit Scotland technical guidance.

Internal control environment

Throughout our audit planning and fieldwork we will continue to develop our understanding of the overall control environment (design) as related to the financial statements. In particular we will:

- Consider procedures and controls around related parties, journal entries and other key entity level controls.
- Perform walkthrough procedures on key controls around identified significant risk areas.
- Our focus is design and implementation of controls only. We do not place reliance on controls when it comes to our year end financial statement audit work.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the significant risks identified in this report.

Other matters (continued)

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

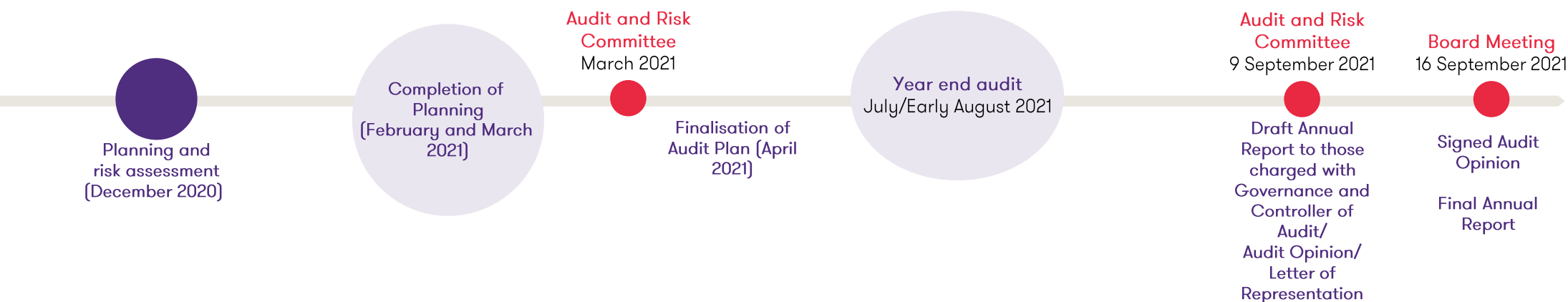
The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important.

In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. In considering going concern we will refer to Audit Scotland's Going Concern publication (December 2020).

Within our wider scope work we will conclude on the IJB's arrangements to ensure financial sustainability.

Audit timeline



Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Annual Report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing;
- ensure that all appropriate staff are available (or as otherwise agreed) over the planned period of the audit; and
- respond promptly and adequately to audit queries.

Quality and adding value through the audit

Our overall approach for the audit is clear and upfront communication, founded on our public sector credentials and a methodology to ensure delivery of a quality audit.

The diagram opposite summarises our key approach to adding value to you throughout our audit.

Our methodology is risk based. We comply with Auditing standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest as a Firm through our audit investment plan. The audit investment plan is supported by a specific national Public Sector audit plan.

We comply with Audit Scotland's quality arrangements including submitting an annual quality report over our Audit Scotland portfolio. As part of Audit Scotland's quality arrangements, ICAS review our work on a rotational basis. Audit Scotland's quality report can be found at www.audit-scotland.gov.uk

Our wider quality arrangements are set out in our annual transparency reports which are available on our website (www.grantthornton.co.uk).

Project management

- Use of Inflo to track progress and deliverables throughout the audit
- Clear roles and ownership of responsibilities within our team
- Clarity over expectations and timetable
- Track record delivering public sector audits on behalf of Audit Scotland

Clear reporting

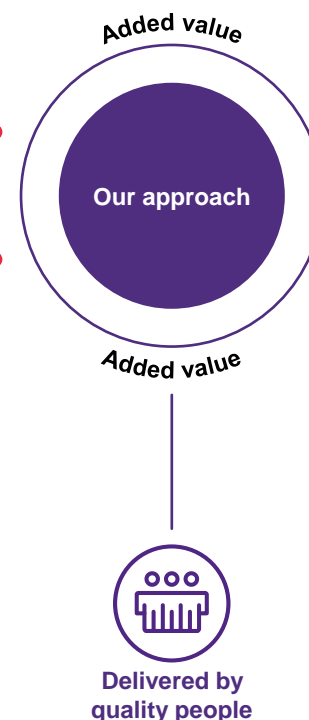
- Clear audit outputs at planning and within our final Annual Report
- Practical, risk based, recommendations for you to take forward
- Our judgements and conclusions set out transparently and in clear language
- Senior presence at Audit and Risk Committee to present our findings and support wider dialogue

Pragmatism and early attention of issues

- Accessible and proactive engagement team
- Working with you to reach the right solution – flexing the workplan, recognising Covid-19 restrictions
- Audit partner takes ultimate decision on technical matters, consulting with our technical experts

Public sector understanding

- Using our public sector insight to inform our audit and identify improvements you could make
- Regular meetings throughout the year sharing our observations and wider sector knowledge
- Wider scope conclusions to support you in considering key risks and the improvement actions to take



Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. This includes the revised ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC over audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the ICAS quality framework.

Our fee as set out has been agreed with the Chief Finance Officer.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified. We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees for 2020/21

Service	Fees £
External Auditor Remuneration	£18,850
Pooled Costs	£1,790
Contribution to Audit Scotland costs	£1,040
Contribution to Performance Audit and Best Value	£5,650
2020/21 Fee	£27,330

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

Fee assumptions

In setting the fee for 2020/21 we have assumed that the IJB will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made in preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Independence

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence.

We encourage you to contact us to discuss these or any other independence issues with us.

We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard.

Our team complete annual fit and proper declarations including independence confirmations on a client by client basis as well as completing timesheets. The work of our Ethics team is overseen by the Ethics partner and all staff undergo ethics training in year.



Appendices

Appendix 1 - Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Dumfries and Galloway Integration Joint Board

Responsibilities include:

- Preparing financial statements that give a true and fair view;
- Maintaining accounting records;
- Establishing and maintaining systems of internal control;
- Effective internal controls including controls to achieve objectives and secure value for money;
- Establish arrangements for proper conduct of affairs including legality of transactions;
- Arrangements for prevention and detection of fraud, error, irregularity, bribery and corruption; and
- Appropriate corporate governance arrangements and arrangements to monitor the effectiveness of governance.

External Audit

Responsibilities include:

- Comply with professional engagement and ethical standards;
- Provide an ISA compliant audit and opinion on the financial statements including regularity of transactions;
- Demonstrate compliance with the wider scope public audit as detailed in the Code and applicable guidance;
- Liaise with and notify Audit Scotland when circumstances indicate a statutory report may be required. This includes sharing awareness of current and/or sector issues;
- Notify Audit Scotland of any known or suspected frauds greater than £5,000; and
- Contribute to relevant performance studies (as set out in the planning guidance for the year).



Appendix 2 - Communication

ISA (UK) 260 as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (we assume this to be the Audit and Risk Committee on behalf of the Board). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Risk Committee.

	Audit Plan	Annual Report (considered our ISA 260 Report)
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance.	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks.	•	
Confirmation of independence and objectivity.	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence.	•	•
Significant matters in relation to going concern.	•	•
Views about the qualitative aspects of Dumfries and Galloway Integration Joint Board's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures.		•
Significant findings from the audit.		•
Significant matters and issues arising during the audit and written representations that have been sought.		•
Significant difficulties encountered during the audit.		•
Significant deficiencies in internal control identified during the audit.		•
Significant matters arising in connection with related parties.		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements.		•
Non-compliance with laws and regulations.		•
Unadjusted misstatements and material disclosure omissions.		•
Expected modifications to the auditor's report or emphasis of matter.		•

Appendix 3 - Fraud responsibilities

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Dumfries and Galloway Integration Joint Board.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls;
- leading a discussion with those charged with governance (for the IJB this is assumed to be the Audit and Risk Committee) on their view of fraud. Typically we do this when presenting our Audit Plan and in the form of management and those charged with governance questionnaires;
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud; and
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We also make inquiries of internal audit around internal control, fraud risk and any known or suspected frauds in year.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if he knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Dumfries and Galloway Integration Joint Board we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the IJB's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the IJB to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Appendix 4 - Auditing Accounting Estimates and Related Disclosures (ISA 540 revised)

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do **Audit and Risk Committee** members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 however based on our review of the prior year financial statements we do not anticipate that this will be applicable to the IJB. We will update our assessment in relation to this matter upon receipt of the unaudited financial statements if required.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Planning enquiries

As part of our planning risk assessment procedures we have made formal inquiries of management. We would appreciate a prompt response to these enquiries in due course.



Informing the audit risk assessment for Dumfries and Galloway Integration Joint Board 2020/21

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Dumfries and Galloway Integration Joint Board's external auditors and Dumfries and Galloway Integration Joint Board's Audit and Risk Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Risk Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Risk Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Risk Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Risk Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Risk Committee and supports the Audit and Risk Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Audit and Risk Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Dumfries and Galloway Integration Joint Board's management. The Audit and Risk Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2020/21?	Covid has had a significant impact on the financial statements for 2020/21. The non delivery of the recurring efficiency and performance targets and additional financial support received from SG as part of the Covid response
2. Have you considered the appropriateness of the accounting policies adopted by Dumfries and Galloway Integration Joint Board? Have there been any events or transactions that may cause you to change or adopt new accounting policies?	None identified.
3. Is there any use of financial instruments, including derivatives?	None identified.
4. Are you aware of any significant transaction outside the normal course of business?	In relation to non routine transactions you will be aware that for most of the 20/21 financial year we have been in a pandemic response phase and as such have received significant additional funding from Scottish Government (circa £30m for the partnership), this was factored through the NHS Board and delegated to partnerships as appropriate. However we are not aware of any individual payments or transactions which we would class as significant.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	Not applicable
6. Are you aware of any guarantee contracts?	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No
8. Other than in house solicitors, can you provide details of those solicitors utilised by Dumfries and Galloway Integration Joint Board during the year. Please indicate where they are working on open litigation or contingencies from prior years?	None identified

General Enquiries of Management

Question	Management response
9. Have any of the Dumfries and Galloway Integration Joint Board's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	None identified

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Risk Committee and management. Management, with the oversight of the Audit and Risk Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Risk Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Dumfries and Galloway Integration Joint Board's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Risk Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Risk Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Risk Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Dumfries and Galloway Integration Joint Board's management.

Fraud risk assessment

Question	Management response
<p>1. Have Dumfries and Galloway Integration Joint Board assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Integration Joint Board's risk management processes link to financial reporting?</p>	<p>This is more relevant to the partner agencies who manage fraud issues at operational level. The IJB has assessed its strategic risks and not assessed that fraud is a relevant risk to include because as an IJB we do not hold assets, employ staff and procure services directly. The financial risks are clearly articulated in reports to IJB.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Procurement of services but these are all procured directly through the Partner agencies who have processes in place to mitigate.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Dumfries and Galloway Integration Joint Board as a whole or within specific departments since 1 April 2020?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>None identified. These will be raised through the Chief Internal Auditor to the Audit and Risk Committee.</p>
<p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Dumfries and Galloway Integration Joint Board where fraud is more likely to occur?</p>	<p>None identified</p>
<p>5. What processes do Dumfries and Galloway Integration Joint Board have in place to identify and respond to risks of fraud?</p>	<p>The IJB itself doesn't have specific fraud arrangements in place, these are operated by the delivery arm of the partnership through the NHS and Council who regularly report fraud to Committee.</p>

Fraud risk assessment

Question	Management response
<p>6. How do you assess the overall control environment for Dumfries and Galloway Integration Joint Board, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p>	<p>The IJB has a set of financial regulations which align with NHS and Council. It has its own Scheme of Delegation and Standing Orders which inform how it operates as a statutory body. The annual accounts include the governance statement which sets out the system of internal controls. The segregation of duties issues are picked up through the partner organisations financial regulations and operation.</p>
<p>7. Are there any areas where there is potential for misreporting?</p>	<p>None identified</p>

Fraud risk assessment

Question	Management response
<p>8. How do Dumfries and Galloway Integration Joint Board communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>Organisational development work through Sturrock and similar cultural pieces. The IJB conducted a Lifestyle Inventories exercise to identify and work through the cultural challenges of Integration.</p>
<p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Key roles primarily include those related to procurement activities including Head of Procurement, Head of Estates, Estates Officers, Contract Managers and other devolved procurement functions such as medical physics and Pharmacy. This is mitigated by a combination of regular dialogue, training from CFS and system controls, checks, review and authorisation required</p>
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>None currently noted but will be reviewed through the related parties process for 2020/21 accounts.</p>

Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Audit and Risk Committee? How does the Audit and Risk Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control? What has been the outcome of these arrangements so far this year?</p>	<p>Nothing formally reported through IJB A&R. Reliant on issues reported by Chief Internal Auditors through overall audit assurances. Risk is minimal.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The IJB doesn't employ staff so not relevant. Both partner organisations comply with relevant standards for their sector on Whistleblowing.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Risk Committee, is responsible for ensuring that Dumfries and Galloway Integration Joint Board's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Risk Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Dumfries and Galloway Integration Joint Board have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Integration Joint Board's regulatory environment that may have a significant impact on the Board's financial statements?</p>	<p>Reporting through Committees around respective areas of responsibility.</p> <p>Legislative issues are monitored and reported by the Governance Officer</p>
<p>2. How is the Audit and Risk Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Relevant reports presented as necessary.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2020 with an on-going impact on the 2020/21 financial statements?</p>	<p>No</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>None</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Dumfries and Galloway Integration Joint Board have in place to identify, evaluate and account for litigation or claims?	Through the Governance Officer
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No

Related Parties

Issue

Matters in relation to Related Parties

Dumfries and Galloway Integration Joint Board are required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Dumfries and Galloway Integration Joint Board;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Integration Joint Board;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Integration Joint Board, or of any entity that is a related party of the Integration Joint Board.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Integration Joint Board's perspective but material from a related party viewpoint then the Integration Joint Board must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Dumfries and Galloway Integration Joint Board's 2019/20 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Dumfries and Galloway Integration Joint Board whether Dumfries and Galloway Integration Joint Board has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>We haven't assessed related parties at this stage although work has started on assessing the appropriate standard. Only relates to Chief Officer and Chief Finance Officer so relatively minimal.</p>
<p>2. What controls does Dumfries and Galloway Integration Joint Board have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>An annual process is carried out reviewing the register of interests as well as sending out a questionnaire. All disclosed related parties are then reviewed for transactions with the Board.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>There is no different process within the Board for these, standard authorisation/approval processes are followed.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>The Chief Officer had delegated authority during the Pandemic to act on behalf of the Chief Executive of the NHS Board and the Chief Executive of the Council on all matters.</p>

Accounting estimates

Issue

Matters in relation to Related Accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Risk Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Risk Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	None to be disclosed
2. How does the Integration Joint Board's risk management process identify and addresses risks relating to accounting estimates?	The IJB has a risk strategy and a set of corporate risks, the HSCP processes are managed through the partner organisations. This would inform any estimates as relevant.
3. How do management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	Much of the estimates sit with the Partner organisations (NHS and Council) so very little estimating at IJB level.
4. How do management review the outcomes of previous accounting estimates?	All estimates are reviewed annually.
5. Were any changes made to the estimation processes in 2020/21 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How do management identify the need for and apply specialised skills or knowledge related to accounting estimates?	N/A
7. How does the Integration Joint Board's determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	N/A
8. How do management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Depends on the nature of the estimate, see response to accounting estimates.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The Board receives regular reports on the Board's financial position including details of financial risks, key judgements and more information as appropriate. For 2020/21 this has focussed on Covid costs with regular reports and information (including scrutiny) of position and judgements. The financial plan position includes details on all planning assumptions and judgements in relation to the opening position. Further work has been undertaken through Board workshops as relevant.</p> <p>Significant accounting estimates are referenced each year when the Committee and Board are being taken through the financial statements.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement?	Refer to question one. None other than those identified separately in this section
11. Are the management arrangements for the accounting estimates reasonable?	Yes other than prescribing accrual, all other estimates are based on reliance from formal external sources.
12. How is the Audit and Risk Committee provided with assurance that the arrangements for accounting estimates are adequate ?	These are presented annually as part of the presentation of annual accounts to Audit and Risk Committee.

