

Integration Joint Board  
Audit, Risk and Governance Committee

8<sup>th</sup> June 2023

This Report relates to  
Item 6 on the Agenda

# External Audit Plan 2022/23

*Paper presented by Katy Kerr*

*For Scrutiny and Review*

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<b>List of Background Papers:</b>	Not required
<b>Appendices:</b>	<b>Appendix 1</b> – Draft External Audit Plan 2022/23

<b>1.</b>	<b>Introduction</b>
1.1	This paper provides the Integration Joint Board with an update on the work of the External Auditors.
<b>2.</b>	<b>Recommendations</b>
2.1	<p><b>The Audit and Risk Committee is asked to:</b></p> <ul style="list-style-type: none"> <li>• <b>Scrutinise and review the attached Draft External Audit Plan (Appendix 1) for Dumfries and Galloway Integration Joint Board for the financial year ending 31 March 2023.</b></li> </ul>
<b>3.</b>	<b>Background and Main Report</b>
3.1	<u>Background</u>
3.2	The Audit and Risk Committee has responsibility for agreement of the External Audit Plan prepared by Audit Scotland as our External Auditors which sets out how they will discharge their responsibilities as set out in the Audit Scotland Code of Audit Practice 2016 as well as requirements under International Standards of Auditing (ISA's) (UK and Ireland).
3.3	<u>Main Report</u>
3.4	The attached report reflects the Draft Audit Plan for the External Audit process for 2022/23 as prepared by Audit Scotland for the Integration Joint Board. The fee for 2022/23 has been confirmed as £31,470 by Audit Scotland.
3.5	This plan has previously been circulated to Committee members for comment.
3.6	Audit Scotland have been appointed as the External Auditors for the Integration Joint Board for the period 2022/23 to 2026/27 inclusive.
<b>4.</b>	<b>Conclusions</b>
4.1	The Committee are asked to review the Draft External Auditors report as presented.
<b>5.</b>	<b>Resource Implications</b>
5.1.	There are no resource implications identified.
<b>6.</b>	<b>Impact on Integration Joint Board Outcomes, Priorities and Policy</b>
6.1.	The development of robust External Auditing arrangements is a fundamental requirement of our overall governance arrangements.
<b>7.</b>	<b>Legal and Risk Implications</b>
7.1.	There are no legal or risk implications identified.
<b>8.</b>	<b>Consultation</b>
8.1.	Consultation with Chief Finance Officer, Chief Officer

**9. Equality and Human Rights Impact Assessment**

9.1. As this report does not propose a change in policy/strategy/plan/project, it is not necessary to complete an impact assessment.

**10. Glossary**

10.1 All acronyms must be set out in full the first time they appear in a paper with the acronym following in brackets.

ISA	International Standards of Auditing
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# Dumfries and Galloway Integration Joint Board

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Dumfries and Galloway Integration Joint Board

March 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 Dumfries and Galloway Integration Joint Board (the IJB). 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 accounts including the management commentary, governance statement and remuneration report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

## Audit Appointment

**2.** We are pleased to be appointed as the external auditor of the IJB 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 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 will help the IJB promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit, Risk and Governance Committee and actively participate in discussions.

## Respective responsibilities of the auditor and the IJB

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the IJB. Key responsibilities are summarised below.

### Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 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 accounts. We also review and report on the arrangements within the IJB to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

### IJB responsibilities

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

10. The IJB has 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 deliver their objectives.

### Communication of fraud or suspected fraud

11. In line with the ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit, Risk and Governance Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. During our audit, should members of the IJB Board have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

# Financial statements audit planning

## Introduction

**12.** The annual accounts are an essential part of demonstrating Dumfries and Galloway Integration Joint Board's (the IJB) stewardship of resources and its performance in the use of those resources.

**13.** We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**14.** Materiality is an expression of the relative significance of a matter in the context of the annual accounts. 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 determine with reasonable confidence whether the annual accounts 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

**15.** We assess materiality at different levels as described in [Exhibit 1](#).

## Exhibit 1

### 2022/23 Materiality levels for the IJB

Materiality	Amount
<p><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 the IJB's operations. It has been set at 2% of gross expenditure based on the latest audited annual accounts for 2021/22.</p>	£9.225 million
<p><b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the annual accounts audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.</p>	£6.919 million



**Reporting threshold (i.e. clearly trivial)** – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.

£250  
thousand

Source: Audit Scotland

## Significant risks of material misstatement to the annual accounts

**16.** Our risk assessment draws on our cumulative knowledge of the IJB, 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.

**17.** 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.

**18.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the annual accounts. This is a risk which has 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 annual accounts

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the 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</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>Assurances will be obtained from the auditors of NHS Dumfries and Galloway and Dumfries and Galloway Council over the completeness, accuracy and allocation of income and expenditure.</li> <li>Evaluate any significant unusual transactions outside the normal course of business.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
management's ability to override controls that otherwise appear to be operating effectively.		

Source: Audit Scotland

## Consideration of the risks of fraud in the recognition of revenue and expenditure

**19.** 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 presumed risk in 2022/23 as, while the possibility of fraud exists, we do not judge it to be a significant risk due to the revenue streams coming from the partner bodies of NHS Dumfries and Galloway and Dumfries and Galloway Council.

**20.** 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. Due to the nature of the IJB's expenditure, we have also rebutted the significant risk of material misstatement due to fraud in expenditure in 2022/23.

**21.** Assurances over the accuracy and completeness of IJB transactions will be obtained from the auditors of Dumfries and Galloway Council and NHS Dumfries and Galloway.

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

### Other area of audit focus

**23.** As part of our assessment of audit risks, we have identified an area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses.

**24.** The area of specific audit focus is:

- IJB reserves: The IJB holds an earmarked reserve balance for Covid-19 funding carried-forward from 2021/22 totalling £16.346 million. The Scottish Government has outlined arrangements to enable Covid-19 reserve balances to be returned through NHS Board allocations back to the Scottish Government. The accounting treatment has not yet been clarified but we will review these and the disclosures in the annual accounts.

## **Audit of the performance report, governance statement and remuneration and staff report**

**25.** In addition to the appointed auditor's opinion on the annual accounts, the appointed auditor is required to provide opinions as to whether the performance report, governance statement and remuneration and staff report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the accounts.

**26.** To inform these opinions, we will consider whether the disclosures within each statement comply with the applicable guidance and confirm that relevant information reflects the contents of the accounts and other supporting documentation.

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# Wider Scope and Best Value Audit

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## Introduction

27. The [Code of Audit Practice](#) 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.

28. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – 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).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the IJB. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the IJB demonstrates economy, efficiency and effectiveness through the use of financial and other resources, including its workforce.

## Wider scope risks

29. We have identified one wider scope audit risk in the area set out in [Exhibit 4](#) overleaf. 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 4

### 2022/23 wider scope risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Financial sustainability</b></p> <p>In recent years the IJB has achieved short term financial balance. However, it continues to be faced with significant financial challenges over the medium to longer term. The transformation change programme is progressing. However, work is still required to achieve the level of transformational change to ensure financial sustainability.</p>	<ul style="list-style-type: none"> <li>Regular monitoring and reporting to the IJB Board on the financial position.</li> </ul>	<ul style="list-style-type: none"> <li>Review financial monitoring reports to assess the financial position, including progress in realising efficiency savings by each partner.</li> <li>Review financial plans and outlook papers to assess the short and medium term and the underlying assumptions applied.</li> </ul>

Source: Audit Scotland

**30.** Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

### Climate Change

**31.** Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

**32.** The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the IJB's arrangements for working with its partners for responding to climate change on areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

### Duty of Best Value

**33.** 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 the IJB demonstrates that it is meeting its Best Value

responsibilities and follow up the progress being made in this area as highlighted in the 2021/22 External Audit Report of the previous external auditor. We will report our findings as part of our Annual Audit Report.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**34.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), 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).

**35.** 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.

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

**37.** [Exhibit 6](#) 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 6 2022/23 Audit outputs

Audit Output	Target date	Audit, Risk and Governance Committee Date
Annual Audit Plan	31/03/2023	08/06/2023
Independent Auditor's Report	30/09/2023	14/09/2023**
Annual Audit Report	30/09/2023	14/09/2023**

\*\* - these reports will be presented to the meeting of the IJB Board on 27 September 2023 where the audited and unsigned 2022/23 annual report and accounts will be approved by those charged with governance.

Source: Audit Scotland

## Timetable



**38.** 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 7](#) that has been discussed with management.

**39.** 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. In 2022/23 we are planning to meet the target of concluding the audit and signing the accounts by 30 September 2023.

**40.** 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 7

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	8 June 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Chief Finance Officer	18 September 2023
Issue draft Letter of Representation and proposed Independent Auditor's Report	20 September 2023
Agreement of audited and unsigned annual report and accounts	20 September 2023
Issue of Annual Audit Report to those charged with governance	20 September 2023
Signed Independent Auditor's Report	27 September 2023

Source: Audit Scotland



## Audit fee

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

**42.** Our fees have increased in 2022/23 and this reflects 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.

**43.** In setting the fee for 2022/23 we have assumed that the IJB has 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

**44.** It is the responsibility of the IJB to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**45.** 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

**46.** 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.

**47.** 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.

**48.** The appointed auditor for IJB is Fiona Mitchell-Knight, 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.

## Audit Quality

**49.** 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.

**50.** 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 Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

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# Appendix 1. Your audit team

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**51.** The audit team involved in the audit of the IJB have significant experience in public sector audit.

Fiona Mitchell-Knight FCA  
Audit Director  
[FMitchell-Knight@audit-scotland.gov.uk](mailto:FMitchell-Knight@audit-scotland.gov.uk)

Fiona is the engagement lead for the audit of Dumfries and Galloway IJB and will sign off the independent auditor's report on the IJB's annual accounts. Fiona has 30 years' experience of public sector audit with Audit Scotland, covering local government, health, and the further education sector.

Peter Lindsay CPFA  
Senior Audit Manager  
[plindsay@audit-scotland.gov.uk](mailto:plindsay@audit-scotland.gov.uk)

Peter has over 26 years of auditing experience and has delivered external audit services to a range of organisations across all areas of the Scottish public sector. Peter will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly, planned, resourced and executed.

Maria Paterson CPFA  
Senior Auditor  
[mpaterson@audit-scotland.gov.uk](mailto:mpaterson@audit-scotland.gov.uk)

Maria has considerable experience in planning and delivering audits. Maria will lead and be responsible for day-to-day management of the audit and will be your primary contact.

**52.** 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.

# Dumfries and Galloway 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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