

Perth and Kinross Integration Joint Board

DRAFT Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Perth and Kinross Integration Joint Board

March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of Perth and Kinross Integration Joint Board (the IJB). The main elements of our work include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published within the Annual Accounts including the Management Commentary, the Annual Governance Statement, and the 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
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and the IJB

2. 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

3. 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.

4. 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 wider scope arrangements in place within the IJB. In doing this, we aim to support improvement and accountability.

The IJB's responsibilities

5. The IJB is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. The IJB is also required to produce other reports in the annual accounts in accordance with statutory requirements.

6. The IJB has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable it to deliver its objectives.

7. The audit of the annual report and accounts does not relieve management or the Audit and Performance Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

8. 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 and Performance we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the Committee have any such knowledge or concerns relating to the risk of fraud within the IJB, we invite them to communicate this to us for our consideration.

Adding value

9. We aim to add value to the IJB through tailoring audit work to the circumstances of the IJB and the audit risks identified; by being constructive and forward looking; providing independent conclusions, attending meetings of the Audit and Performance Committee; 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.

Annual Accounts

Introduction

10. The annual accounts are an essential part of demonstrating the IJB's stewardship of resources and its performance in the use of those resources.

11. We are required to perform an audit of the financial statements, consider other information within the Annual Accounts and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector and guidance from Audit Scotland.

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

Materiality

13. 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 about whether 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 2023/24 audit

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

Exhibit 1

2023/24 materiality levels for the IJB

Materiality	Amount
Planning materiality: 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. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited 2022/23 annual accounts.	£5.500 million
Performance materiality: this acts as a trigger point. If the aggregate of errors identified during the Annual Accounts audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our	£4.125 million

professional judgement, we have assessed performance materiality at 75% of planning materiality.

Reporting threshold: we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.275 million
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Source: Audit Scotland

Significant risk of material misstatement to the Annual Accounts

15. 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.

16. 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.

17. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This risk 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

2023/24 significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their 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"> • Agreement of balances and income to Perth & Kinross Council and NHS Tayside financial reports / ledger / correspondence. • Auditor assurances will be obtained from the auditors of Perth & Kinross Council and NHS Tayside which ensure completeness, accuracy and allocation of income and expenditure. • Review of financial monitoring reports during the year. • Review of year-end consolidation of expenditure reports from Perth &

Significant risk of material misstatement	Sources of management assurance	Planned audit response
		Kinross Council and NHS Tayside including examining any significant adjustments.

Source: Audit Scotland

18. 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 2023/24 as it is wholly funded by contributions from NHS Tayside and Perth & Kinross Council which are clearly communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity and incentive to manipulate the recognition of income in the financial statements.

19. 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 the IJB as it does not directly incur expenditure. Perth & Kinross IJB expenditure is incurred and processed through the financial systems of the partner bodies (NHS Tayside and Perth & Kinross Council) and there is limited scope for the IJB to manipulate this.

20. Assurances over the accuracy and completeness of Perth & Kinross IJB transactions will be obtained from the auditors of Perth & Kinross Council and NHS Tayside. We have not, therefore, included any specific work in our audit plan in these areas in addition to our standard audit procedures.

Wider Scope and Best Value

Introduction

21. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

22. In summary, the four wider scope areas are:

- **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:** we will look ahead to consider whether the IJB is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years)
- **Vision, leadership and governance:** we conclude on the clarity of plans 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.

Wider scope risks

23. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any wider scope audit risks for the 2023/24 audit of the IJB. Progress on the outstanding recommendations identified in prior years will be followed-up with management during the course of the 2023/24 audit.

Best value

24. Auditors have a duty to be satisfied that bodies that fall within section 106 of the Local Government (Scotland) Act 1973 have made proper arrangements to secure Best Value. We will consider how the IJB demonstrates that it is meeting its Best Value responsibilities, and we will report our findings in our Annual Audit Report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with relevant officers to confirm factual accuracy.

26. We will provide:

- an Independent Auditor's Report to the IJB and the Accounts Commission setting out our opinions on the annual accounts
- the IJB and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audits and conclusions on wider scope areas.

27. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Accounts Commission.

Exhibit 3 2023/24 audit outputs

Audit Output	Target date	Audit and Performance Committee date
Annual Audit Plan	31 March 2024	11 March 2024
Independent Auditor's Report	30 September 2024	28 October 2024
Annual Audit Report	30 September 2024	28 October 2024

Source: Audit Scotland

28. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to 'aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate' and that the signed accounts 'must be published no later than 31 October'. Due to the legacy of the late completion of prior year audits due to the Covid-19



pandemic and ongoing resourcing challenges within Audit Scotland, we are unable to complete the IJB's audit by 30 September but aim to have it completed in time to publish the audited accounts by 31 October. We acknowledge that this planned timetable is determined by the availability of the audit process and not by the IJB which proposes to present unaudited accounts for audit by the 30 June. We will work towards delivering the audit and audit outputs by the target date over the period of the audit appointment.

29. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Timetable

30. To support an efficient audit, it is critical that the timetable for producing the Annual Accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed and agreed with management.

Exhibit 4 Proposed annual accounts timetable

 Key stage	 Date
Consideration of the unaudited Annual Accounts by those charged with governance.	24 June 2024
Latest submission date for the receipt of the unaudited Annual Accounts with complete working papers package.	By 30 June 2024
Latest date for final clearance meeting with the Chief Financial Officer.	14 October 2024
Agreement of audited unsigned annual accounts Issue of Annual Audit report including ISA260 report to those charged with governance	21 October 2024
Audit and Performance Committee meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	28 October 2024
Independent Auditor's Report signed	28 October 2024

Source: Audit Scotland

Audit fee

31. In determining the audit fee for 2023/24 we have taken account of the risk exposure of the IJB and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £33,360 (2022/23: £31,470).

32. In setting the fee for 2023/24 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.

Other matters

Internal audit

33. It is the responsibility of the IJB to establish adequate internal audit arrangements. The internal audit function at the IJB is provided by Perth & Kinross Council's internal audit section. We have reviewed internal audit's plan as part of our planning process. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

External audit team

34. There is a change in the engagement lead for the IJB audit this year as Audit Director Brian Howarth is retiring. The engagement lead (i.e. appointed auditor) for the 2023/24 audit of IJB is Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in central government, local government and NHS audits, including the audit of IJBs. The incoming and outgoing engagement leads are holding handover discussions to ensure a smooth transition.

35. Mary O'Connor, Senior Auditor and Maggie Bruce, Senior Audit Manager will continue to lead and manage the external audit team on a day-to-day basis.

Independence and objectivity

36. We are independent of the IJB in accordance with the relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposed stringent rules to ensure the independence and objectivity of auditors.

37. 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.

38. The Ethical Standard requires the auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of Perth & Kinross IJB.

Audit quality

39. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

40. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard
- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgement and conclusions reached by the audit team, and the appropriateness of proposed opinions of high-risk audit engagements.

41. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

42. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee

43. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Perth and Kinross Integration Joint Board

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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:

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