
To: Renfrewshire Integration Joint Board Audit, Risk and Scrutiny Committee

On: 12 March 2021

Report by: Chief Finance Officer

Heading: Update on the 2020/21 Audit of Renfrewshire Integration Joint Board

1. Summary

1.1 An update on the 2020/21 audit of Renfrewshire Integration Joint Board is submitted for Members' information. This letter has been provided to members to provide them with an update on progress and highlight key audit matters. It also includes the next steps regarding how the Annual Audit Plan will be shared with members once it is available.

2. Recommendation

The IJB Audit, Risk and Scrutiny Committee is asked to:

- Note the Audit Scotland 2020/21 update attached at Appendix 1.
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3. Background

3.1 Audit Scotland's responsibilities, as independent auditor, are established by The Public Bodies (Joint Working) (Scotland) Act 2014, The Local Government (Scotland) Act 1973 and the Code of Audit Practice, and, guided by the auditing profession's ethical guidance.

3.2 Under the Local Government (Scotland) Act 1973, the Accounts Commission is responsible for appointing the external auditors of local government bodies including councils, joint boards and bodies falling within section 106 of the Act. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards (IJBs) should be treated as if they were bodies falling within section 106 of the 1973 Act. In 2016 the Accounts Commission appointed Audit Scotland as the external auditor for Renfrewshire Integration Joint Board for the five year period from 2016 to 2021.

3.3 As members are fully aware Covid-19 has resulted in significant disruption for public bodies and to auditors of the public sector.

3.4 Due to this, the Auditor General for Scotland and the Accounts Commission for Scotland announced on 10 June 2020, an intention to extend the current audit appointments by one year in the first instance. The Accounts Commission has confirmed the one year extension. This extension would be through to the audit of

the 2021/22 year, this means that John Cornett of Audit Scotland will remain the auditor for Renfrewshire IJB throughout this period.

- 3.5 The current Code of Audit Practice, which was due to be renewed later this year, will apply to the extended appointments.

4. **Audit Fee**

- 4.1 The proposed audit fee for the 2020/21 audit is £27,330 (2019/20: £26,560). This fee is consistent with the fees for all Integration Joint Boards. In determining the audit fee, Audit Scotland take account of the risk exposure of RIJB, the planned management assurances in place and the level of reliance they plan to take from the work of internal audit.

- 4.2 Audit Scotland's fee assumes receipt of the unaudited financial statements by 30 June 2020 and covers the cost of planning, delivery, reporting and the auditor's attendance at committees.

Implications of the Report

1. **Financial** – The financial implications are detailed in section 3 of this report.
2. **HR & Organisational Development** – none
3. **Community Planning** – none
4. **Legal** – An audit opinion free from qualification demonstrates the IJB's compliance with the statutory accounting requirements set out in the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.
5. **Property/Assets** – none
6. **Information Technology** – none
7. **Equality & Human Rights** – The recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the IJB's website.
8. **Health & Safety** – none
9. **Procurement** – none
10. **Risk** – none
11. **Privacy Impact** – none.

List of Background Papers – None

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Renfrewshire Integration Joint Board: Audit, Risk and Scrutiny Committee

12 March 2021

Update on the 2020/21 audit of Renfrewshire Integration Joint Board

1. The purpose of this letter is to provide members with an update on the 2020/21 audit of Renfrewshire Integration Joint Board (RIJB). Covid-19 had a significant impact on the way our audits were carried out in 2019/20 and extensions to statutory deadlines resulted in audit work being completed later than usual, with elements of our 2019/20 audits not being fully completed until early 2021. This, along with the tighter Covid-19 suppression measures announced earlier in the year, has impacted on the planning work on our 2020/21 audits.

2. Our planning work on the 2020/21 audit of RIJB is progressing well. However, we are not in a position to present our Annual Audit Plan at the March meeting of the Audit, Risk and Scrutiny Committee (ARSC). We have included this letter to update members on progress and highlight key audit matters. We are having discussions with management and the Chair of the ARSC about how our Annual Audit Plan will be shared with members once it is available.

Risks

3. Our preliminary planning work has identified the following significant risks that require specific audit considerations.

- **Risk of material misstatement due to management override of controls:** International Standard on Auditing 240 (ISA 240) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls to change the position disclosed in the financial statements.
- **Wider dimensions risk around financial sustainability:** RIJB is facing a number of financial pressures including pay inflation, increases in prescribing costs and increasing service demand. Covid-19 has also had a significant financial impact which is expected to continue into the coming years. The Financial Outlook 2021/22 paper presented at the November 2020 board meeting highlighted a funding gap of £47 million to £69 million between 2021/22 and 2025/26 if no additional funding is received or no mitigating actions are taken.

4. ISA 240 presumes a risk of fraud in revenue recognition which is extended to expenditure by Practice Note 10. There is a risk that income or expenditure may be fraudulently misstated resulting in a material misstatement in the financial statements. We do not consider these to be significant risks for RIJB as there are limited opportunities to manipulate the way income or expenditure are recognised in the financial statements and have therefore rebutted these risks.

5. Our Annual Audit Plan will include any further risks identified from our planning work and outline our response to all identified risks.

Audit Fee

6. The proposed audit fee for the 2020/21 audit is £27,330 (2019/20: £26,560). In determining the audit fee, we have taken account of the risk exposure of RIJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

Materiality

7. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report. The materiality levels for RIJB are set out [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.25 per cent of gross expenditure for the year ended 31 March 2020 based on the 2019/20 audited annual accounts.	£3.9 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75 per cent of planning materiality.	£2.9 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. This has been calculated at five per cent of planning materiality.	£0.2 million

Source: Audit Scotland

Audit Timetable

8. As outlined in paragraph 1, Covid-19 has had a significant impact on the timings of our 2020/21 audit. We are working towards issuing the independent auditor's report and Annual Audit Report by the statutory deadline of 31 October 2021. However, we acknowledge this may not be achievable due to the ongoing pressures and uncertainties caused by Covid-19. We will maintain a pragmatic and flexible approach to the audit and will continue to have discussions with management and the Chair of the ARSC around the progress of our work and any changes that may be required to target dates outlined in [Exhibit 2](#).

Exhibit 1 Audit outputs

Audit Output	Target date	Audit, Risk and Scrutiny Committee date
Annual Audit Plan	30 April 2021	N/A
Independent Auditor's Report	31 October 2021	TBC
Annual Audit Report	31 October 2021	TBC

Source: Audit Scotland

Independence and Objectivity

9. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

10. The engagement lead (i.e. appointed auditor) for RIJB is John Cornett, Audit Director. Auditing and ethical standards require the engagement lead 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 Renfrewshire Integration Joint Board.



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