

Argyll and Bute Integration Joint Board

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Argyll and Bute Integration Joint Board

March 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Argyll and Bute Integration Joint Board ('the IJB'). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>		<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm income and expenditure has been accounted for in the correct financial year.</p>
<p>2 Preparation of 2016/17 financial statements</p> <p>The IJB became operational on 1 April 2016 and will therefore need to prepare more complex 2016/17 financial statements than those prepared for 2015/16. The IJB will also be required to provide information necessary for NHS Highland and Argyll and</p>	<p>An accounts preparation timetable will be prepared before year end to identify all the relevant deadlines and how these will be met.</p> <p>On-going discussions with colleagues at Argyll and Bute</p>	<p>Review of accounts preparation timetable once prepared.</p> <p>On-going dialogue with officers to ensure the accounts are prepared and audited within the required timescales.</p> <p>Review of compliance with</p>

Audit Risk	Management assurance	Planned audit work
<p>Bute Council's financial statements and the timetable for this will be challenging due to the health board's financial statements having to be prepared in early May. The IJB will need to put measures in place such as a year-end timetable to ensure it can prepare timely, accurate and Code compliant accounts and provide the necessary information to the health board and the council within the required timescales.</p>	<p>Council and Highland Health Board to agree a timetable.</p>	<p>accounting standards/ the Code as part of financial statements audit.</p>
<p>Wider dimension risks</p>		
<p>3 Financial sustainability</p>		
<p>The IJB receives funding from Argyll and Bute Council and NHS Highland. The budget outlook report to end of December 2016 forecasts a shortfall of £16.3 million in 2017/18 (including the projected overspend for 2016/17) and £5.7 million in 2018/19. This creates a risk over the financial sustainability of the IJB. The IJB has recognised this risk as part of its risk management process.</p>	<p>The Quality and Financial Plan for 2017-18 and 2018-19 is in development.</p> <p>Internal audit's review of financial monitoring and performance management.</p> <p>Continued discussions on affordability and service delivery at Board level.</p> <p>On-going discussions with council and health board colleagues regarding the level of funding allocated to the IJB.</p>	<p>Review of approach to medium and long-term financial planning, including any scenario planning.</p> <p>Review of budget outlook reports and other reports presented to the board members.</p>
<p>4 Financial management - year end outturn</p>		
<p>The approved budget for 2016/17 shows income and expenditure of £256 million. The budget monitoring report to end of December 2016 projects a year-end overspend of £1.1 million. It also indicates that the IJB may not be able to achieve £3.5 million of its efficiency savings target of £8.5 million for 2016/17. There is therefore a risk that the IJB will not break even in 2016/17 and this may in turn increase the already substantial financial pressures for 2017/18 and beyond.</p>	<p>A recovery plan has been implemented and the Chief Officer issued a moratorium on all but essential spending in a further effort to deliver a balanced outturn.</p> <p>Internal audit's review of financial monitoring and performance management.</p>	<p>Monitor the financial position throughout the year by reviewing budget monitoring reports.</p> <p>On-going dialogue with officers regarding the projected year end outturn.</p> <p>Review of the IJB's achievement of outturn at year end.</p> <p>Review of financial statements to ensure that expenditure and income has been accounted for in the correct financial year.</p> <p>Consideration of internal audit's review of financial and performance monitoring.</p>
<p>5 Workforce planning</p>		
<p>The IJB has identified a risk that, due to the rural nature and challenging geography of Argyll and Bute, its partner organisations commissioned to</p>	<p>A workforce planning process is being developed through Locality Planning Groups. A specific piece of work is being undertaken in Oban and this is</p>	<p>Monitor progress with the preparation of the workforce plan.</p>

Audit Risk	Management assurance	Planned audit work
<p>deliver services may not be able to attract appropriate clinical staff such as GPs. The IJB does not have a workforce plan in place clearly setting out what staff resources across the statutory, independent and third sectors will be required for service delivery.</p> <p>Without such a workforce plan there is a risk that the IJB is unable to achieve key objectives of its corporate strategy.</p>	<p>due to be rolled out to other localities.</p>	

Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk, once they have been finalised and considered by the Audit Committee.

4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy.

5. We will provide an independent auditor's report to the IJB and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the IJB's Chief Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Report including ISA 260 requirements	By 30 September 2017	September 2017
Signed Independent Auditor's Report	By 30 September 2017	N/A

Audit fee

6. The agreed audit fee for the 2016/17 audit of the IJB is £17,400. In determining the audit fee we have taken account of the risk exposure of the IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt or poor quality of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out-with our planned audit activity.

Responsibilities

Audit Committee and Chief Officer

8. Audited bodies have 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 successfully deliver their objectives.

9. The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the 1973 Local Government (Scotland) Act and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. 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.

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the IJB and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the IJB will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

13. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the state of the affairs of the IJB and of the income and expenditure of the IJB
- whether they have been properly prepared in accordance with IFRSs as adopted by the European union and interpreted by the 2016/17 Code of Practice on Local Authority Accounting in the United Kingdom, the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003
- whether the information included in the management commentary is consistent with the financial statements.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the IJB are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the latest budgeted expenditure for 2016/17.	£2.570 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 60% of planning materiality.	£1.542 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£ 50 thousand



15. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issues identified will be reported to the Audit Committee.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	By 30 June 2017
Submission of financial elements of the accounts to allow them to be audited and enable the NHS Highland audit to complete to required timescales	15 May 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with the Chief Financial Officer	Early September 2017
Agreement of audited unsigned financial statements;	By 30 September 2017
Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 September 2017

Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scott Moncrieff.

Adequacy of Internal Audit

18. Our review of internal audit concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. In respect of our wider dimension audit responsibilities we plan to consider areas of internal audit work including:

- Financial monitoring and performance management
- Engagement with Locality Planning Groups
- Corporate governance.

Audit dimensions

19. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



20. As part of our responsibility to report on the four audit dimensions, we have identified specific areas of proposed audit work for 2016/17 and these are outlined in paragraphs below. We will do further work over the five-year audit appointment.

Financial sustainability

21. 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 the IJB's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We consider:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the IJB can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

22. The IJB is forecasting a shortfall of £16.3 million in 2017/18 and £5.7 million in 2017/18. This creates a risk over the financial sustainability of the IJB. We will review the approach to medium and long-term financial planning adopted by the IJB.

23. There were no other significant financial sustainability risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Financial management

24. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We consider:

- whether the IJB has arrangements in place to ensure systems of internal control are operating effectively
- whether the IJB can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the IJB has assured itself that its financial capacity and skills are appropriate.

25. The IJB is projecting a year end overspend of £1.1 million and that £3.5 million of savings identified will not be achieved. We will continue to monitor the financial position and review the year end outturn and ensure this is correctly presented in the annual accounts and that income and expenditure is accounted for in the correct year. We will also consider work performed by internal audit relating to financial and performance management.

26. There were no other significant financial management risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Governance and transparency

27. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We consider:

- whether the IJB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

28. In September 2010 the Auditor General published a national report on the Role of Boards. The report highlighted a number of key messages on the role of boards and how they are accountable to the Scottish Government and the Scottish

Parliament, board members' skills and expertise and how boards operate. In 2016/17 Audit Scotland will conduct a follow up of this report and we will contribute to the intelligence by conducting a review of local arrangements at the IJB.

29. The IJB has recognised a significant risk in attracting staff with appropriate skills in certain areas. The IJB does not currently have a workforce plan which increases the risks to service delivery and financial costs. We will monitor progress of the organisation wide workforce plan.

30. There were no other significant governance and transparency risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We consider whether the IJB can provide evidence that it is demonstrating value for money in the use of its resources and achievement of outcomes.

32. There were no significant value for money risks identified by our planning work that we intend to undertake specific work on in 2016/17.

Strategic plan for the five year appointment

33. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6

Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning		Financial planning
Financial management	Financial governance	Resource management	Financial governance Resource management
Governance and transparency	Role of Boards follow-up	Leadership, governance and scrutiny Workforce planning	Leadership, governance and scrutiny
Value for money			Performance management Operational efficiency

Independence and objectivity

34. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

35. The engagement lead for the IJB is David McConnell, Assistant 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

Quality control

36. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

37. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

38. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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