

Clackmannanshire and Stirling Integration Joint Board

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

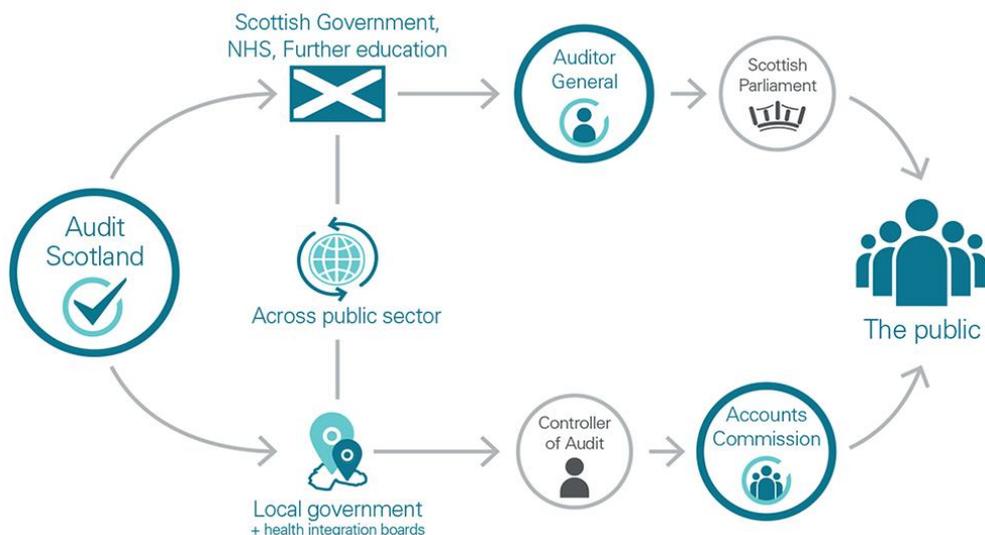
Prepared for Clackmannanshire and Stirling Integrated Joint Board

February 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 Clackmannanshire and Stirling 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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Preparation of Financial Statements</p> <p>Operational financial statements are required for the first time in 2016/17, and are more complex than in the prior year.</p> <p>There is a risk that the procedures for agreeing the year end balances are not fully embedded; and that this may not be agreed in time to enable NHS Forth Valley to meet its deadline for approving and reporting its accounts by 9 June 2017. There is also a risk that the annual</p>	<ul style="list-style-type: none"> • The Chief Finance Officers' Network is working with the Scottish Government, CIPFA and Audit Scotland to agree and adopt a standard annual accounts template. • The Chief Finance Officer and the partner bodies will work closely to plan and prepare the 2016/17 accounts. This includes working to a mutually agreed timetable. They will meet regularly to monitor 	<ul style="list-style-type: none"> • We will continue to engage with officers prior to the accounts being prepared to help ensure the relevant information is disclosed and timetable met. • We will review the governance statement against the Code requirements. • Check that accounting policies are appropriate and complete. • Obtain assurances from the auditors of each of the

Audit Risk	Management assurance	Planned audit work
<p>accounts are not in accordance with the 2016/17 Code of Practice on Local Authority Accounting in the UK (the "Code").</p>	<p>progress, to ensure accurate and Code compliant unaudited accounts are presented to the Integration Joint Board for approval at their meeting in 7 June 2017</p> <ul style="list-style-type: none"> A sound system of budgetary control, including regular budget monitoring. 	<p>partner bodies over the accuracy, completeness and appropriate allocation of the IJB ledger entries.</p> <ul style="list-style-type: none"> Review of compliance with accounting standards as part of financial statements audit.
<p>3 Governance statement and management assurances</p> <p>The preparation of the financial statements of the IJB relies on the provision of financial and non-financial information from the systems of the three partner bodies. The Chief Finance Officer of the IJB must obtain assurance; that the costs transferred to the accounts of the IJB are complete and accurate and were incurred on behalf of the IJB for services prescribed in the integration scheme.</p> <p>There is a risk that the Chief Finance officer does not have adequate assurance that information received from each party is accurate and complete.</p>	<ul style="list-style-type: none"> The integration scheme specifies the financial reporting responsibilities of the partner bodies. Regular monitoring of financial information and periodic reporting to the IJB. Strong working relationships with the councils and health board. Due diligence completed on the budget setting process. 	<ul style="list-style-type: none"> Assess whether the governance statement adequately reflects the position of the IJB. Confirm financial reporting throughout the year is accurately reflected in the year end position. Consider whether appropriate action is taken on issues raised in Internal Audit reports. We will obtain audit assurances from the auditor of the councils and health board regarding the accuracy and allocation of IJB transactions; and obtain confirmations that they are recorded in the correct financial year.
Wider dimension risks		
<p>4 Financial sustainability - 2016/17 budget overspend</p> <p>Based on the current budget monitoring report covering the period to 30th November 2016, there is a projected overspend of £0.924 million. It is anticipated that the IJB budget recovery action will not produce a balanced financial position for the partnership in 2016/17 and as such there is a risk that constituent authorities with projected overspends will be required to provide additional non-recurrent funding to meet the projected in-year cost of providing delegated services.</p>	<ul style="list-style-type: none"> Regular financial monitoring is reported to the IJB. The budget update for February 2017 and subsequent reports to the IJB will identify plans to achieve savings on a recurring basis and also address likely future savings challenges. The constituent authorities have been requested to finance their respective overspends in 2016/17 on a non recurrent basis. 	<ul style="list-style-type: none"> Review whether budget monitoring is robust and accurately reflects the financial position. Confirm and assess the steps taken to determine and agree future savings requirements with partner bodies. Review evidence of recovery plan or remedial action being taken on areas of overspend.
<p>5 Financial sustainability - financial planning</p> <p>The IJB's 2017/18 budget is still being developed. The savings required for 2017/18 are likely to</p>	<ul style="list-style-type: none"> Due diligence will be completed on the budget setting process. This will reflect on the experience gained in 2016/17, and the 	<ul style="list-style-type: none"> Review outcome of due diligence exercise. Review of the effectiveness of the IJB's financial plans. Review of the IJB's progress

Audit Risk	Management assurance	Planned audit work
<p>be more challenging than those required in 2016/17. There is high projected growth in demand and increased costs to fund the living wage, self directed support and home care. If recurring savings are not agreed for the 2016/17 financial year the challenge of meeting the savings gap will increase. There is a risk that delays in agreeing the 2017/18 budget will impact negatively on the financial management of the IJB and service delivery.</p>	<p>need to meet recurring savings requirements.</p> <ul style="list-style-type: none"> • The timing of NHS financial planning and associated partnership budget contributions is a national issue. We continue to raise this through a number of forums both locally and nationally. • The risk register recognises the need to deliver efficiencies in the integrated functions. • It is intended to produce a three year plan that aligns financial requirements to the delivery plan and the development of localities. 	<p>in agreeing a budget and savings proposals for 2017/18.</p>
<p>6 Reserves Policy</p> <p>The integration scheme outlines that the IJB has the power to hold reserves and highlights that any future year contributions from reserves should be in line with the reserves policy.</p> <p>Until the reserves policy is approved and in place, there is a risk that the IJB may be unclear on how it utilises reserves or accounts for under and overspends.</p>	<ul style="list-style-type: none"> • The Integration Scheme outlines how over or underspends should be treated by the IJB and its constituent partners. 	<ul style="list-style-type: none"> • Monitor progress of reserves policy and comment, as appropriate, in the annual audit report. • Check that the agreed reserves policy adequately outlines how the IJB is able to hold reserves in the event of future managed over or underspends.

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.

4. 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.

5. We will provide an independent auditor's report to Clackmannanshire and Stirling Integration Joint Board and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Accountable Officer, Auditor General for Scotland 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	30th August 2017	TBC*
Signed Independent Auditor's Report	30th August 2017	TBC*

* The dates for audit committee meetings from June 2017 require to be confirmed.

Audit fee

6. The proposed audit fee for the 2016/17 audit of Clackmannanshire and Stirling IJB is £17,400. In determining the audit fee we have taken account of the risk exposure of Clackmannanshire and Stirling 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 23 May 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable 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 Integration Joint Board, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 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 audited body to manage its performance, regularity 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 Clackmannanshire and Stirling IJB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Clackmannanshire and Stirling 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 in accordance with applicable law and the 2016/17 Code of the state of the affairs of Clackmannan and Stirling IJB as at 31 March 2017 and of the income and expenditure of the Clackmannan and Stirling IJB for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that 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 Clackmannanshire and Stirling Integration Joint Board 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 17 based on the latest budget for 2016/17	£1.650 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 50% of planning materiality.	£0.825 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 1% of planning materiality.	£0.016 million

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

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
Agreement of transactions and balances with partner bodies	15 May 2017
Latest submission date of unaudited [body's] financial statements with complete working papers package	23 May 2017
Consideration of unaudited financial statements by those charged with governance	22 June 2017
Latest date for final clearance meeting with Chief Finance Officer	August 2017 - TBC
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	TBC once audit committee dates known
Independent auditor's report signed	TBC once audit committee dates known

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.

18. Internal audit services are provided by the partner bodies. Overall planning and reporting of these services, as they impact the IJB, are being provided by the Stirling Council internal audit team for the first three years.

Adequacy of Internal Audit

19. We carry out an annual assessment of internal audit to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Overall, we concluded that the audit service provided by Stirling Council to the IJB generally complies with the PSIAS.

Areas of reliance

20. In respect of our wider governance and performance audit work we plan to review the findings and consider areas of internal audit work including:

- Review of IJB Governance Arrangements
- Integration Financial Assurance

Audit dimensions

21. 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



22. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Financial sustainability

23. 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 body'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 will carry out work and conclude on:

- 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

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 will review, conclude and report on:

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

Governance and transparency

25. 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 will review, conclude and report on:

- whether the Clackmannanshire and Stirling IJB can demonstrate that the governance arrangements in place are effective
- whether the Audit Committee, Board members and staff demonstrate high standards of behaviour and receive sufficient training and development
- 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.

Value for money

26. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Clackmannanshire and Stirling IJB can provide evidence that it is demonstrating value for money in the use of its resources and achievement of outcomes.

Strategic plan for the five year appointment

27. 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 management	Financial governance and resource management		
Governance and transparency	Role of Boards follow up		
Value for money	Operational efficiency		

Independence and objectivity

28. 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.

29. The engagement lead for Clackmannanshire and Stirling Integration Joint Board is David McConnell, Assistance 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 Clackmannanshire and Stirling IJB.

Quality control

30. 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.

31. 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.

32. 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.

Clackmannanshire and Stirling Integration Joint Board

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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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