

# East Lothian Integration Joint Board

Annual Audit Plan 2016/17



Prepared for the Members of the East Lothian Integration 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 including the new approach to Best Value. 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 the East Lothian Integration Joint Board (East Lothian 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: Key audit risks

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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 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>	<p>Focussed testing of journal entries and accruals.</p> <p>Review of accounting estimates.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Service auditor assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p>
<p><b>2 Financial statements preparation</b></p> <p>The 2016/17 financial statements will require income, expenditure and year end balances to be agreed with East Lothian Council and NHS Lothian.</p> <p>There is a risk that the procedures for agreeing the year</p>	<p>The financial statements will be prepared by the finance team at East Lothian Council in line with the appropriate regulations and guidance. ELC and NHSL finance teams are agreeing a process for the reporting of balances etc. This will be supported by the IJB's Chief Finance Officer in line with those</p>	<p>Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</p> <p>Service auditor assurances will be obtained from the auditors of East Lothian</p>

Audit Risk	Management assurance	Planned audit work
<p>end balances are not fully embedded and that the financial statements are not delivered to the agreed timescale and in the required format.</p>	<p>accounts prepared for 2015/16.</p>	<p>Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p>
<b>Wider dimension risks</b>		
<p><b>3 Financial sustainability</b></p> <p>The 2016/17 East Lothian IJB budget allocations agreed with the partners contain significant efficiency challenges, for which comprehensive savings plans have not been agreed. As yet, there has been no formal budget monitoring taking place at IJB level.</p> <p>There is a risk that any overspends arising will not be identified and remedied and will result in a year-end budget overspend for the IJB.</p>	<p>The IJB is finalising its financial plan based on the budgetary offers from its partners. The partners have shared their draft position with the IJB but neither has yet made a formal offer. This work is reported to the IJB at its meetings.</p>	<p>Review outcome of due diligence exercise.</p> <p>Ensure budget monitoring at IJB level is present, is robust and accurately reflects the financial position.</p> <p>Confirmation of agreement of funding and balances with host bodies.</p>
<p><b>4 Financial sustainability</b></p> <p>The IJB has yet to agree a long-term financial risk sharing agreement with its partners. For 2016/17, NHS Lothian has agreed to underwrite any overspend of the health element of the IJB budget. An agreement has yet to be reached with East Lothian Council with respect to the current anticipated overspend on Adult Wellbeing.</p> <p>The risk is that in the absence of a financial risk-sharing agreement accountability for any budget overspends will lie with the IJB.</p>	<p>This will be part of the agreed financial plan for 2017/18 as above. ELC have agreed an additional £1.0m to support the Adult Wellbeing budget, the current proposition is that this will cover any projected overspend.</p>	<p>Review outcome of due diligence exercise.</p> <p>Review and assess progress towards agreeing a long-term financial risk-sharing agreement with partners.</p>
<p><b>5 Financial management</b></p> <p>The IJB has no formalised process in place for financial planning and budget forecasting from 2017/18 onwards.</p> <p>There is a risk that any issues relating to financial sustainability and delivery of the strategic plan in the medium to long-term are not identified sufficiently early to be resolved with partners.</p>	<p>This is being developed as part of the 2017/18 budget settlement process. The financial management processes will be laid out in the directions as appropriate.</p>	<p>Review and assess progress towards developing and agreeing a long-term financial plan.</p>
<p><b>6 Governance and transparency</b></p> <p>The Public Bodies (Joint Working) (Scotland) Act requires IJBs to publish annual performance information in various areas including service planning. The IJB is currently</p>	<p>Work continues to ensure that this information is available.</p>	<p>Review and assess progress towards publishing annual performance information and indicators.</p>

Audit Risk	Management assurance	Planned audit work
<p>developing a framework for measuring performance.</p> <p>There is a risk that failure to monitor in-year performance in 2016/17 will lead to non-compliance with the Act.</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](http://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 officer(s) to confirm factual accuracy.

5. We will provide an independent auditor's report to the East Lothian Integration Joint Board and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Chief Officer, Chief Financial Officer (the 'proper officer'), members of the East Lothian IJB Audit and Risk Committee 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 & Risk Committee Date
Annual Audit Report including ISA 260 requirements	By 30 September	By 29 September
Signed Independent Auditor's Report	By 30 September	By 29 September

## Audit fee

6. The proposed audit fee for the 2016/17 audit of East Lothian IJB is £17,470. In determining the audit fee we have taken account of the risk exposure of the East Lothian 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 on, 30 June 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 and Risk Committee and Chief Financial 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.** It is the responsibility of the Chief Financial Officer, as the appointed 'proper officer', to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of the East Lothian IJB as at 31 March 2017 and its expenditure and income for the year then ended.

**10.** The audit of the financial statements does not relieve management or the East Lothian IJB Audit and Risk Committee, as those charged with governance, of their responsibilities.

### **Appointed auditor**

**11.** Our 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.

**12.** 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.

**13.** 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

**14.** 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 East Lothian 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 the East Lothian 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.

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

- whether they give a true and fair view of the financial position of the audited body and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements

## Materiality

**16.** 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 East Lothian Integration Joint Board are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - 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 budget for 2016/17.	£1.35 million
<b>Performance materiality</b> - 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% of planning materiality.	£1.013 million
<b>Reporting threshold</b> - 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.	£0.014 million

17. It should be noted that we continue to exercise our professional judgement and in certain areas of the financial statements. We review and report on other information published with the financial and any issues identified will be reported to the Audit and Risk Committee.

### Timetable

18. 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 and Risk Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	By 30 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Chief Financial Officer	11 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 29 September 2017
Independent auditor's report signed	By 29 September 2017

### Internal audit

19. 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. Internal audit for the East Lothian IJB is provided by the internal audit team at East Lothian Council and is overseen by their Internal Audit Manager who is the Chief Internal Auditor for the East Lothian IJB.

### Adequacy of Internal Audit

**20.** We carried out an early assessment of the internal audit function at East Lothian Council and concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

### Areas of reliance

**21.** In respect of our wider dimension audit responsibilities we plan to consider the following areas of internal audit work including:

- corporate governance, including key internal controls
- financial governance, including key internal financial controls
- performance management.

### Audit dimensions

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

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## Exhibit 5

### Audit dimensions



**23.** 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

**24.** 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
- whether the board can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

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

### Governance and transparency

**26.** 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 Board 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.

### Value for money

**27.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the Board can provide evidence that it is demonstrating value for money in the use of its resources.
- the Board can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- the Board can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### 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 accountability 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 the East Lothian IJB is Gillian Woolman, 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 East Lothian 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 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.

# East Lothian Integration Joint Board

## Annual Audit Plan 2016/17

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](mailto:info@audit-scotland.gov.uk)

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