

South Lanarkshire Integration Joint Board

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for South Lanarkshire 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

Introduction

1. This annual audit plan contains an overview of the planned scope and timing of our audit of South Lanarkshire Integration Joint Board. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. This plan sets out the audit work necessary to allow us to provide an independent auditor's report and meet the wider scope requirements of public sector audit. The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and transparency and value for money. We make a public report of conclusions on these matters in our annual audit report to the Board and the Controller of Audit.

Audit risks

3. 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 South Lanarkshire Integration Joint Board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out 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>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Service auditor assurances will be obtained from the auditors of South Lanarkshire Council and NHS Lanarkshire over the completeness, accuracy and allocation of the income and expenditure.
<p>2 Financial statements preparation</p> <p>NHS Lanarkshire will require to have the financial statements of the Integration Joint Board in sufficient time to allow incorporation into its group</p>	<ul style="list-style-type: none"> Periodic monitoring of financial information. Officers complying, where appropriate, with guidance from the Integrated Resource Advisory Group (IRAG) and Local Authority 	<ul style="list-style-type: none"> Engage with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is understood. Formal assurances will be obtained from the auditors of

Audit Risk	Management assurance	Planned audit work
<p>financial statements. Without proper planning there is a risk that the requisite information is not provided within the timescales required by NHS Lanarkshire to meet its statutory sign-off deadline of 30 June 2017.</p>	<p>(Scotland) Accounts Advisory Committee (LASAAC).</p> <ul style="list-style-type: none"> Processes and procedures will be agreed to ensure information is provided in a timely manner to support the delivery of the financial statements. 	<p>South Lanarkshire Council and NHS Lanarkshire over the completeness, accuracy and allocation of the income and expenditure.</p>
<p>3 Governance statement and management assurances</p> <p>Preparation of the IJB financial statements relies on the provision of financial and non-financial information from the systems of the two 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"> Strong working relationships between the council and health board The integration scheme specifies the financial reporting responsibilities of both South Lanarkshire Council and NHS Lanarkshire. Monthly monitoring of financial information. Assurances provided through joint internal audit arrangement. 	<ul style="list-style-type: none"> Ensure governance statement adequately reflects the position of IJB. Confirm appropriate action is taken on issues raised in internal audit reports. Confirm that financial reporting throughout the year is accurately reflected in the year end position. Carry out audit testing to confirm the accuracy and correct allocation of IJB transactions, and that they are recorded in the correct financial year. Seek audit assurances from the external auditors of the council and health board.
<p>4 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure.</p> <p>The expenditure of the IJB is processed through the financial systems of South Lanarkshire Council and NHS Lanarkshire. There is a risk that non IJB related expenditure is incorrectly charged to IJB account codes.</p>	<ul style="list-style-type: none"> Robust budget monitoring 	<ul style="list-style-type: none"> Obtain assurances from the auditors of South Lanarkshire Council and NHS Lanarkshire over the accuracy, completeness and appropriate allocation of the IJB ledger entries. Carry out audit testing to confirm the accuracy and correct allocation of IJB transactions, and that they are recorded in the correct financial year.
<p>5 Budget overspends</p> <p>Based on the budget monitoring report for the period to 31 October 2016 the Board is forecasting an overspend for the financial year of:</p> <ul style="list-style-type: none"> Health care services: £nil Social care: £3.605 million <p>There is a risk that the budget setting process is unsound and/or there is a lack of control over spending.</p>	<ul style="list-style-type: none"> Due diligence to be completed on the budget setting process. Ongoing monitoring of the prescribing expenditure. Agreement of budget recovery plans in line with the Financial Regulations as appropriate. 	<ul style="list-style-type: none"> Review outcome of due diligence exercise. Consider whether budget monitoring is robust and accurately reflects the financial position. Consider whether the outturn position is accurately reported in the financial statements.

Audit Risk	Management assurance	Planned audit work
Wider dimension risks		
<p>6 Financial sustainability</p> <p>South Lanarkshire Council and NHS Lanarkshire face significant financial pressures from reductions in Scottish Government funding and increasing unavoidable costs. There is a risk that the IJB is not able to identify sustainable savings measures or meet cost pressures as they arise.</p>	<ul style="list-style-type: none"> • Strong working relationships between the council and the health board. • Regular financial monitoring and reporting to the IJB. • A reserves policy is being developed. 	<ul style="list-style-type: none"> • Ensure ongoing budget monitoring accurately reflects the position of the IJB. • Review recovery plans or remedial action taken to address areas of budget pressure / projected overspends. • Review reserves policy.
<p>7 Transparency</p> <p>In order to ensure transparency, information about the nature of the IJB, its performance and governance should be readily accessible to the public. The South Lanarkshire Integration Joint Board does not have its own website and therefore committee and board papers are only available on the NHS Lanarkshire website. The absence of a dedicated information site for citizens, board members and staff means there is a risk that the nature and performance of the IJB is inaccessible to stakeholders.</p>	<ul style="list-style-type: none"> • Production of annual performance report. 	<ul style="list-style-type: none"> • Review public reporting and other IJB information available to the public.

Reporting arrangements

4. The annual audit plan, the outputs set out in will provide an independent auditor's report to South Lanarkshire Integration Joint Board and the Accounts Commission setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide the Board and the Controller of Audit with an annual audit report containing observations and recommendations on significant matters which have arisen during the course of the audit.

5. Exhibit 2, and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

6. 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.

7. We will provide an independent auditor's report to South Lanarkshire Integration Joint Board and the Accounts Commission setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide the Board and the Controller of Audit with an annual audit report containing observations and recommendations on significant matters which have arisen during the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	South Lanarkshire Performance and Audit Sub-Committee / Integration Joint Board meeting
Issue of annual audit report	29 September 2017*	29 August 2017
Independent auditor's report	29 September 2017*	12 September 2017

* These dates represent the certification deadline for the 2016/17 IJB accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts.

Audit fee

8. The proposed audit fee for the 2016/17 audit of South Lanarkshire Integration Joint Board is £17,400. In determining the audit fee we have taken account of the risk exposure of South Lanarkshire Integration Joint Board, 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 23rd May 2017.

9. 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

South Lanarkshire Integration Joint Board and Chief Officer

10. 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.

11. The audit of the financial statements does not relieve management or the South Lanarkshire Integration Joint Board, as those charged with governance, of their responsibilities.

Appointed auditor

12. 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.

13. Auditors in the public sector give an independent opinion on the financial statements. We aim to support improvement and accountability by reviewing and reporting on arrangements to manage performance, regularity and use of resources.

Audit scope and timing

Financial statements

14. The statutory financial statements audit will be the foundation and source for much 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 South Lanarkshire Integration Joint Board and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how South Lanarkshire Integration Joint Board 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 state of affairs of the Board as at 31 March 2017 and of the income and expenditure of the Board for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and other relevant legislation.

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 to the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for South Lanarkshire 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 potential audit adjustments to the financial statements. It has been set at 1% of gross expenditure based on the delegated budget for 2016/17.	£4.512 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 set performance materiality at 50% of planning materiality.	£2.256 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of predetermined reporting threshold. This has been set at 1% of planning materiality.	£0.05 million

17. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. We will report to the Board as necessary.

Timetable

18. A proposed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	23 May 2017
Latest submission date of unaudited financial statements with complete working papers package	23 May 2017
Latest date for final clearance meeting with Chief Finance Officer	9 August 2017
Agreement of audited unsigned financial statements; Issue of annual audit report	29 September 2017*
Issue of independent auditor's report	29 September 2017*

* These dates represent the certification deadline for the 2016/17 IJB accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts.

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 we carry out an assessment of the internal audit function. Internal audit is provided by a team from South Lanarkshire Council and NHS Lanarkshire on a joint basis.

Adequacy of Internal Audit

20. A formal review of the adequacy of internal audit is due to be completed by the end of February 2017. This will be done by the external auditors of the host bodies and then an assessment will be made in relation to the Integration Joint Board.

Areas of Reliance

21. In respect of our wider dimension audit responsibilities we plan to consider internal audit's work including their reviews of:

- due diligence on the 2016/17 budget
- governance arrangements
- performance management
- financial 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](#).

Exhibit 5

Audit dimensions



23. 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 medium term and longer term. We will carry out work and conclude on the following in 2016/17:

- 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

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

- arrangements in place to ensure systems of internal control are operating effectively
- the effectiveness of the budgetary control system in reporting accurate and timely financial performance
- financial capacity and skills are adequate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

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 assess:

- whether governance arrangements are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making
- the quality and timeliness of financial/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 South Lanarkshire Integration Joint Board can provide evidence that it is delivering value for money in the use of resources and has a focus on improvement, and that there is a clear link to the outcomes delivered.

28. Audit Scotland are also the appointed auditors for NHS Lanarkshire and as part of the 2016/17 audit activity the audit team are currently completing a review of delayed discharges which may involve discussions with council staff.

Best Value

29. The work planned this year will focus on financial management and the development of governance arrangements within the Integration Joint Board.

Independence and objectivity

30. 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.

31. The engagement lead for South Lanarkshire Integration Joint Board is Fiona Mitchell-Knight, 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 South Lanarkshire Integration Joint Board.

Quality control

32. 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.

33. 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 engages external bodies to conduct independent quality reviews.

34. 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.

South Lanarkshire Integration Joint Board

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