

# Aberdeenshire Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Members of Aberdeenshire Integration Joint Board

February 2018

## 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.

2. 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

3. Based on our discussions with staff, attendance at board and committee meetings and a review of supporting information we have identified the following main risk areas for Aberdeenshire Integration Joint Board (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

### 2017/18 Key audit risks

| Audit Risk   | Source of 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 consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p> | <ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>   | <ul style="list-style-type: none"> <li>Detailed testing of journal entries</li> <li>Review of accounting estimates</li> <li>Focused testing of accruals and prepayments</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul> |
| <p><b>2 Completeness of expenditure</b></p> <p>The transactions for the IJB are recorded through the partner ledgers of NHS Grampian and Aberdeenshire Council. If robust processes are not in place there is a risk that expenditure is miscoded and IJB accounts are under/over-stated.</p>  | <ul style="list-style-type: none"> <li>Assurances from partner bodies on the completeness and accuracy of data. Chief Finance Officer is also the Head of Finance of Aberdeenshire Council</li> <li>Regular budget monitoring.</li> </ul> | <ul style="list-style-type: none"> <li>Service auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian) with regard to expenditure incurred, coding structures and completeness and accuracy of data.</li> </ul>                            |

| Audit Risk   | Source of assurance  | Planned audit work   |
|--|--|--|
| <p><b>3 Agreement of balances with partners</b></p> <p>Income, expenditure and year end balances will require to be agreed between the IJB and partner bodies, Aberdeenshire Council and NHS Grampian. There is a risk that procedures for agreement of balances are not in place and therefore balances are not agreed by partners by the relevant dates and thus, delay delivery of the financial statements and impact on partners' group accounts.</p> | <ul style="list-style-type: none"> <li>• Regular budget monitoring</li> <li>• Officers review the guidance issued by IRAG and LAASAC</li> <li>• Timetable agreed between NHS Grampian, Aberdeenshire Council and IJB for the agreement of balances</li> <li>• 2017/18 outturn is expected to be a deficit of around £4m. In line with the integration scheme, funding for this amount has already been earmarked by partner bodies.</li> </ul> | <ul style="list-style-type: none"> <li>• Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met</li> <li>• Service auditor assurances from the auditor of partner bodies (Aberdeenshire Council and NHS Grampian) with regard to income and expenditure for the year and balances held at 31 March 2018.</li> </ul> |
| <b>Wider dimension risks</b>   |  |  |
| <p><b>4 Longer term planning</b></p> <p>While the IJB has a 3 year strategic plan, the extent of longer term forward planning is unclear. With the focus on annual budgets, there is a risk that the integration board will not be able to align financial planning with strategic planning. In the absence of a long term view of community needs, there is a risk that service redesign will not be effective.</p>                                       | <ul style="list-style-type: none"> <li>• From 2017/18, a medium term financial strategy will be prepared to enable the IJB to have cognisance of available financial resources over a 5 year period</li> <li>• Involvement of the board and management in budget planning workshops and ongoing budget monitoring arrangements</li> <li>• The development of Regional planning and locality planning.</li> </ul>                               | <ul style="list-style-type: none"> <li>• Discussion with officers to understand the background to the strategic planning approach and plans for integration and wider community involvement</li> <li>• Ongoing monitoring of financial plans, assumptions and estimates and commentary in our Annual Audit Report.</li> </ul>  |
| <p><b>5 Budget overspends</b></p> <p>The IJB is working with partners to manage an estimated budget shortfall of around £4m. Owing to the demand led nature of several budgets (e.g. prescribing); there are challenges ahead in delivering financial balance if efficiencies are not achieved.</p>  | <ul style="list-style-type: none"> <li>• Involvement of the board and management in budget planning workshops and ongoing budget monitoring arrangements</li> <li>• Working with partners to manage budgets experiencing particular financial pressure.</li> </ul>   | <ul style="list-style-type: none"> <li>• Review budget setting arrangements to determine the level of collaborative working</li> <li>• Review of budget setting reports, financial monitoring and other financial updates considered by the Board</li> <li>• Service auditor assurances will be obtained in respect of funding and balances.</li> </ul>  |
| <p><b>6 The impact of integration</b></p> <p>The IJB approved a 3 year strategic plan covering 2016-19 and this is supported by a refreshed commissioning (change and implementation) plan covering 2017 to 2019. The plan links its programme of work with the IJB's strategic priorities,</p>  | <ul style="list-style-type: none"> <li>• Developments in workforce planning</li> <li>• Regional and locality planning.</li> </ul>  | <ul style="list-style-type: none"> <li>• Gain an understanding of the extent of single system working</li> <li>• Review of strategic plan, commissioning plan and monitoring reports</li> <li>• Discussion with officers to understand the strategic planning arrangements and</li> </ul>  |

| Audit Risk   | Source of assurance | Planned audit work                        |
|--|---------------------|---|
| with detailed actions and target dates included in operational plans. Planned outcomes and indicators of success are not clear and with workforce planning being at an early stage of development, there is a risk that the IJB will not be able to demonstrate measurable progress in integrating services. |                     | the overall approach to service redesign. |

## Reporting arrangements

4. 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).

5. 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.

6. We will provide an independent auditor's report to Aberdeenshire Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the 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.

7. Audit Scotland conducts a national programme of performance audit studies. The 2017/18 programme includes the second report of a three stage approach looking at progress in the development of health and social care integration. Local auditors will gather intelligence and submit a data return to support the fieldwork for the national study. The report is expected to be published around November 2018.

## Exhibit 2

### 2017/18 Audit outputs

| Audit Output  | Target date   | Audit Committee Date   |
|---|---------------|--|
| Performance audit data return - health and social care integration performance audit study part 2 | 31 July 2018  | N/A  |
| Annual Audit Report including ISA 260 requirements  | 7 August 2018 | 22 August 2018   |
| Signed Independent Auditor's Report   |               | Audited accounts to be considered for approval on 22 August 2018 |

## Audit fee

8. The proposed audit fee for the 2017/18 audit of Aberdeenshire IJB is £24,000 (2016/17 £17,470). In determining the audit fee we have taken account of the risk exposure of Aberdeenshire 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 2018.

**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**

### **Audit Committee and Chief Finance 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 Audit Committee as those charged with governance, of their responsibilities.

### **Appointed auditor**

**12.** Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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 Aberdeenshire 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 Aberdeenshire 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 in accordance with applicable law and the 2017/18 Code of Practice on Local Authority Accounting in the United Kingdom (the 2017/18 Code) of the state of the affairs of the Aberdeenshire IJB as at 31 March 2018 and of the income and expenditure of the IJB for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2017/18 Code
- 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

**16.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**17.** We calculate materiality at different levels as described below. The calculated materiality values for Aberdeenshire IJB 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 latest audited accounts.   | £3.2m  |
| <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 70% of planning materiality. | £2.2m  |
| <b>Reporting threshold (i.e. clearly trivial)</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 5% of planning materiality or a minimum of £100k. .  | £100k  |

Source: Audit Scotland

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

### Timetable

**19.** 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 balances for NHS Grampian's group accounts consolidation   | By 31 May 2018   |
| Consideration of unaudited financial statements by those charged with governance                                  | 20 June 2018   |
| Latest submission date of unaudited Aberdeenshire IJB's financial statements with complete working papers package | 22 June 2018   |
| Latest date for final clearance meeting with the Chief Finance Officer  | 3 August 2018  |
| Agreement of audited unsigned financial statements;   | 14 August 2018   |
| Issue of Annual Audit Report including ISA 260 report to those charged with governance                            | 14 August 2018   |
| Independent auditor's report signed   | 24 August 2018   |

## Internal audit

**20.** 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 David Hughes, Chief Internal Auditor at Aberdeenshire Council.

### Adequacy of Internal Audit

**21.** We are also the auditors for Aberdeenshire Council and consequently, we have taken assurance from our review of internal audit carried out in connection with our audit of the council. We concluded that the internal audit function operates in accordance with Public Sector Internal Audit Standards.

**22.** Sharing arrangements have been put in place between the internal auditors of the IJB, Aberdeenshire Council and NHS Grampian. Where there is a direct relationship between the internal audit work carried out in the partner bodies and the IJB, the relevant report will be shared with the IJB audit committee for information.

## Audit dimensions

**23.** 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



Source: Code of Audit Practice

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

### Financial sustainability

**25.** 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 board'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
- appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**26.** 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 Aberdeenshire IJB:

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

### 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 will review, conclude and report on whether Aberdeenshire IJB:

- can demonstrate that the governance arrangements in place are appropriate and operating effectively
- has effective scrutiny, challenge and transparency over decision-making and finance and performance reports
- has quality and timely financial and performance reporting.

### Value for money

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

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

### Independence and objectivity

**29.** Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has 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 Director of Audit Services who serves as Audit Scotland’s Ethics Partner.

**30.** The engagement lead (appointed auditor) for Aberdeenshire 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 Aberdeenshire IJB.

## Quality control

**31.** 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.

**32.** 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 (and relevant supporting guidance) issued by Audit Scotland and approved by the Accounts Commission. 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.

**33.** 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.

## Adding Value

**34.** Through our audit work we aim to add value to the IJB. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the board has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

## Audit Team

**35.** The local audit team will be led by Anne MacDonald, Senior Audit Manager, who will be responsible for day to day management of the audit and will be your primary contact. Details of the team's experience and skills are provided in [Exhibit 6](#). The audit team may be supplemented by additional staff during peak times.

## Exhibit 6 Core Audit Team

| Name  | Experience   |
|---|--|
| Gillian Woolman FCA CPFA<br>Assistant Director (and certifying auditor) | <ul style="list-style-type: none"> <li>Gillian has worked in the public and private sector, internal and external audit, in the UK and overseas. She is the lead Assistant Director for equality and diversity matters at Audit Scotland and holds a mixed portfolio of audits. She is currently chair of the regional strategic board for the Institute of Chartered Accountants in England and Wales and Vice Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).</li> </ul> |
| Anne MacDonald, Senior Audit Manager                                    | <ul style="list-style-type: none"> <li>Anne has many years of public sector experience, mainly in local government, covering both financial audit and best value audit.</li> </ul>   |
| Mark Johnstone, Senior Auditor  | <ul style="list-style-type: none"> <li>Mark has a significant number of years of public sector audit experience, across the local government, central government, health and further education sectors.</li> </ul>   |

# Aberdeenshire Integration Joint Board

## Annual Audit Plan 2017/18

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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