

# Argyll and Bute Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Argyll and Bute Integration Joint Board

March 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 committee meetings and a review of supporting information we have identified the following main risk areas for Argyll and Bute Integration Joint Board (“the IJB”). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

| Audit Risk  | Source of assurance  | Planned audit work   |
|---|--|--|
| <b>Financial statement 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 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>Review of accounting estimates.</p> <p>Review of the assurances from the IJB’s partner bodies’ external auditors, who carry out testing of journals and accruals and prepayments.</p> <p>Evaluation of any significant transactions that are outside the normal course of business.</p> |
| <b>Wider dimension risks</b>  |  |  |
| <p><b>2 Financial management – year end outturn</b></p> <p>The approved budget for 2017/18 shows funding of £258.855 million and total required funding of £266.052 million. After taking into account in year savings there remains a budget gap of £2.816 million for 2017/18. The budget</p>   | <p>Financial recovery plan implemented in August when the projected overspend was £4.4m. Significant progress in reducing position, the forecast at January 2018 is a year-end overspend of £2.6m.</p> <p>Financial recovery is being hampered by continued budget</p> | <p>Monitor the financial position throughout the year by reviewing budget monitoring reports.</p> <p>On-going dialogue with officers regarding the projected year end outturn.</p> <p>Review of the IJB’s achievement of outturn at year</p>   |

| Audit Risk  | Source of assurance   | Planned audit work   |
|---|---|--|
| <p>update report to the end of December 2017 projected a year-end overspend of £2.915 million. It also indicated that the IJB may not be able to achieve £4.043 million of its in year savings of £8.197 million planned for 2017/18. There is therefore a risk that the IJB will not break even in 2017/18 and this may in turn increase the already substantial financial pressures for 2018/19 and beyond.</p>   | <p>pressures including demand for social care services, cost of medical locums and delays in delivering savings.</p> <p>It is unlikely breakeven will be achieved in 2017-18 and the focus is on reducing the overspend as far as possible.</p> <p>We have an agreed project management approach to deliver savings, which was bedded in during 2017-18, this is being reviewed following an internal audit review and the process will be improved for 2018-19.</p> <p>Approached Council and Health partners to seek agreement for 3 year repayment of overspend to limit impact of overspend on 2018-19.</p> <p>Service financial information for high cost services (e.g. locums, agency, care home, home care, supported living, prescribing) is being developed for next year to allow SMT to challenge costs and ensure consistency across localities.</p> | <p>end.</p> <p>Review of financial statements to ensure that expenditure and income has been accounted for in the correct financial year.</p>  |
| <p><b>3 Financial sustainability</b></p> <p>The budget outlook report to the end of December 2017 forecasts a shortfall of £10.1 million in 2018/19 (including the projected overspend for 2017/18). This creates a risk over the financial sustainability of the IJB.</p> <p>The IJB does not currently have financial plans beyond 2018/19. There is a risk that the IJB does not have a complete picture of its financial position and the challenges it faces in meeting its objectives in the medium to longer term.</p> | <p>Shortfall has now been updated to between £5m and £6m following Scottish Government budget approval and funding offers from Health Board and Council.</p> <p>Quality and Finance Plan being developed and a balanced budget will be presented to the IJB on 28 March 2018. Risk that some savings will not be approved as not in line with Strategic Plan delivery.</p> <p>Agreed at Strategic Planning Group that a 3 year financial plan for 2019-20 to 2021-22 will be developed to sit alongside the next 3 year Strategic Plan to ensure the outcomes and ambitions of the Strategic Plan are aligned to available resources.</p>   | <p>Review of approach to medium and long-term financial planning, including any scenario planning.</p> <p>Review of budget outlook reports and other reports presented to the board.</p> |
| <p><b>4 Workforce Planning</b></p> <p>Following from our 2016/17</p>  | <p>Work began on the development of an HSCP</p>   | <p>Monitor progress with the preparation and implementation</p>  |

| Audit Risk  | Source of assurance  | Planned audit work            |
|---|--|-------------------------------|
| <p>annual audit report recommendation, the IJB has developed locality workforce planning models but has yet to develop an overarching workforce plan clearly setting out staff resources across the statutory, independent and third sectors required for service delivery. During 2017/18, the IJB has experienced a number of vacancies in key positions with some of the posts filled on a temporary basis with agency staff or short-term secondments.</p> <p>Until an overarching workforce plan is developed, the risk remains that the IJB may be unable to deliver its corporate strategy, including its plans for service re-design, due to skills and capacity gaps in key areas. This risk is exacerbated due to the challenging geography and declining and ageing population of Argyll and Bute as its partner organisations commissioned to deliver services may not be able to attract appropriate clinical staff.</p> | <p>workforce plan in March 2017 with support from the Scottish Government iHub team.</p> <p>We have held two workshops in each of our localities, with a view to building our first Workforce Plan for 2018-2022. The first iteration will focus largely on Adult Services and we are developing a narrative to cover 1 year and then the next 3 years to ensure our Plan is in sync with our HSCP Strategic Planning cycle.</p> <p>The draft Plan will be developed by end-March 2018, then taken for further consultation to SMT, Partnership Forum and our 4 Localities. We have a Workforce Programme Board overseeing progress and we will bring our first Plan to the IJB in May 2018 for approval.</p> <p>The second iteration of our Plan for 2019 will include all other HSCP services and also third &amp; voluntary sector activity.</p> <p>We are keeping the West of Scotland Regional Planning Group aware of our work. We are also contributing to the NHS Highland annual workforce plan: NHS Highland is part of the North of Scotland Regional Planning group.</p> | <p>of the workforce plan.</p> |

## 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 the IJB and Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer and 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

### 2017/18 Audit outputs

| Audit Output                                      | Target date          | Audit Committee Date |
|---|----------------------|----------------------|
| Annual Audit Report including ISA260 requirements | By 28 September 2018 | 11 September 2018    |
| Signed Independent Auditor's Report               | By 28 September 2018 | N/A                  |

### Audit fee

7. The proposed audit fee for the 2017/18 audit of the IJB is £24,000 (2016/17 £17,400). In determining the audit fee we have taken account of the risk exposure of Argyll and Bute 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 29<sup>th</sup> June 2018.

8. 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 out with our planned audit activity.

### Responsibilities

#### Audit Committee and Chief Officer

9. 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.

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

#### Appointed auditor

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

12. 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

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

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

**14.** 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 of the financial position of the IJB as at 31 March 2018 and its income and expenditure 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 2017/18 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**15.** 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.

**16.** We calculate materiality at different levels as described below. The calculated materiality values for the IJB are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

| Materiality level  | Amount         |
|--|----------------|
| <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 2018 as estimated based on the latest audited accounts for 2016/17.  | £2.590 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 70% of planning materiality. | £1.800 million |
| <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 and capped at £0.100 million.   | £0.100 million |

Source: Argyll and Bute Integrated Joint Board Audited Annual Accounts 2016/17.

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

## Exhibit 4

### Financial statements timetable

|  Key stage |  Date |
|---|--|
| Consideration of unaudited financial statements by those charged with governance              | 26 June 2018   |
| Latest submission date of unaudited annual accounts with complete working papers package      | 29 June 2018   |
| Latest date for final clearance meeting with the Chief Financial Officer                      | 20-23 August   |
| Issue of letter of representation and proposed independent auditor's report                   | 4 September 2018   |
| Agreement of audited unsigned annual accounts   | By 19 September 2018   |
| Annual accounts authorised for issue by the IJB   | 26 September   |

2018

|  |                      |
|--|----------------------|
| Issue of Annual Audit Report including ISA 260 requirements to those charged with governance | 4 September 2018     |
| Independent auditor's report signed  | By 28 September 2018 |

## 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 Scott Moncrieff.

### Adequacy of Internal Audit

**20.** Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documenting standards and reporting procedures in place.

### Areas of Internal Audit reliance

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

- Service redesign and project management
- Risk 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.** 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.

**24.** During 2017/18, we will contribute to the intelligence for Audit Scotland's health and social care integration (part two) audit by conducting a review of local arrangements at Argyll & Bute IJB. This work is expected to include elements of each wider code areas described below such as budget monitoring, governance arrangement and performance reporting.

### **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 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 IJB can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### **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 the IJB has arrangements in place to ensure systems of internal control are operating effectively
- whether the IJB can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the IJB has assured itself that its financial capacity and skills are appropriate
- whether the IJB 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 the IJB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- whether the Board and Audit Committee members demonstrate high standards of behaviour and receive sufficient training and development
- the quality and timeliness of financial and performance reporting.

### Value for money

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

### Independence and objectivity

**29.** Auditors appointed by the Accounts Commission or Auditor General 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 for Audited Body is David McConnell, Assistant Director. Auditing and ethical standards require the appointed auditor David McConnell to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the IJB.

### Quality control

**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 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.

**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 IJB 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.

# Argyll and Bute Integration Joint Board

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