

# Clackmannanshire and Stirling Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Clackmannanshire and Stirling 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 committee meetings and a review of supporting information we have identified the following main risk areas for Clackmannanshire and Stirling 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 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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<b>Wider dimension risks</b>		
<p><b>2 Financial sustainability – 2017/18 budget overspend</b></p> <p>Based on the latest budget monitoring report for the period to 31<sup>st</sup> October 2017, the IJB is projecting an overspend of £3.316 million.</p> <p>The IJB budget recovery action currently being carried out is not</p>	<p>Regular financial monitoring is reported to the IJB.</p> <p>The integration schemes outlines the procedures that partner bodies should follow in the event of an overspend.</p> <p>A recovery plan is currently in place which details how the overspend will be partly</p>	<p>Review whether budget monitoring is robust and accurately reflects the financial position.</p> <p>Confirm and assess the steps taken to determine and agree future savings requirements with partner bodies.</p> <p>Review evidence of recovery</p>

Audit Risk	Source of assurance	Planned audit work
<p>expected to produce a balanced financial position for the partnership in 2017/18. Discussions are underway between partners to agree a basis on which to address how the overspend will be managed.</p> <p>Until this is determined and agreed, there is a risk that the IJB cannot confirm its 2017/18 outturn position or whether it has broke even.</p>	<p>funded. Thus far the IJB have identified £0.320 million of efficiency savings and intend to use £1.145 million of its general fund balance to offset the overspend.</p> <p>The next budget update in 2018 and subsequent reports to the IJB will identify plans to achieve savings on a recurring basis and also quantify and consider likely future years estimated funding gaps.</p>	<p>plan or remedial action being taken on areas of overspend.</p> <p>Confirm that partners agree a basis on which to fund the overspend</p>
<p><b>3 Financial sustainability – short term financial planning</b></p> <p>The IJB's budget for 2018/19 is still being developed. A recent budget update sent to the IJB Committee in December 2017 indicated that the estimated funding gap for 2018/19, based on a flat cash budget compared to 2017/18, will be £11.6 million. Therefore the IJB will need to identify and deliver efficiency savings in order to produce a balanced budget.</p> <p>There is a risk that delays in agreeing the 2018/19 budget will impact negatively on the financial management of the IJB and service delivery.</p>	<p>Due diligence will be completed over the budget setting process. This will build on experience gained in prior year and the need for the IJB to meet savings requirements.</p> <p>The timing of NHS financial planning and associated partnership budget contributions is a national issue. We continue to raise this through a number of forums both locally and nationally.</p> <p>Service and budget reduction options are being presented to the board in tandem with the impact of local government and health sector financial settlements. The next budget update in 2018 and subsequent reports to the IJB will identify plans to achieve savings on a recurring basis and also quantify and consider likely future years estimated funding gaps.</p> <p>The risk register recognises the need to deliver efficiencies in the integrated functions.</p>	<p>Review the results of the due diligence review.</p> <p>Review the effectiveness of the IJB's financial plans.</p> <p>Review the progress the IJB have made towards agreeing the 2018/19 budget and the efficiency savings required.</p>
<p><b>4 Financial planning – longer term planning</b></p> <p>Both the integration scheme and the strategic plan state that the IJB should have medium term financial planning.</p> <p>The IJB does not currently have a medium to long term financial strategy or plan in place.</p> <p>There is a risk that the IJB does not have a strategic approach towards how it will finance its</p>	<p>A medium term financial strategy to support delivery of the strategic plan is being developed and will be approved soon.</p>	<p>Review the progress the IJB have made towards its medium or long term financial strategy; and confirm that the assumptions are reasonable and consistent with the IJB's strategic plan objectives.</p>

Audit Risk	Source of assurance	Planned audit work
longer term service delivery objectives.		

## 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 Accountable 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.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	21 February 2018	21 February 2018
Annual Audit Report	12 September 2018	12 September 2018
Independent Auditor's Report	12 September 2018	12 September 2018

## Audit fee

7. The proposed audit fee for the 2017/18 audit of the IJB is £24,000 (£17,400 in 2016/17). In determining the audit fee we have taken account of the risk exposure of the 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 31 May 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 outwith our planned audit activity.

## Responsibilities

### Audit Committee and Accountable 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 1973 Act for local government, 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 there 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 18 based on the 2016/17 audited accounts.	£1.765 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 60% of planning materiality.	£1.059 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 1% of planning materiality.	£0.018 million

Source: 2016/17 Clackmannanshire and Stirling Integration Joint Board Annual Accounts

17. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration. Any issue 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
Agreement of transactions and balances with partner bodies	14 May 2018
Latest submission date of unaudited annual accounts with complete working papers package	31 May 2018
Consideration of unaudited financial statements by those charged with governance	13 June 2018
Latest date for final clearance meeting with Chief Finance Officer	By 23 August 2018
Issue of letter of representation and proposed independent auditor's report	By 30 August 2018
Annual Accounts authorised for issue by the IJB	12 September 2018

Issue of Annual Audit Report including ISA 260 report to those charged with governance	12 September 2018
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Independent auditor's report signed	12 September 2018
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## 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.

**20.** Internal audit is provided by the partner bodies. Overall planning and reporting of these services, as they impact the IJB, are being provided by the Stirling Council internal audit team until the end of 2018/19.

### Adequacy of Internal Audit

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

### Areas of Internal Audit reliance

**22.** In respect of our wider dimension audit responsibilities we plan to consider the findings of internal audit work including:

- review of the progress in taking forward transformational change in the delivery of integrated services
- review of the development and implementation of the Performance Management Framework and associated Annual Report.

## 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](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

**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 body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

#### Financial management

**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.
- 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 will review, conclude and report on whether the IJB can provide evidence that it is demonstrating value for money in the use of its resources, the achievement of its outcomes, and whether there is a clear link between money spent, and outcomes delivered.

## 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 Audit Scotland 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.

# Clackmannanshire & Stirling Integration Joint Board

## Annual Audit Plan 2017/18

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