



Dumfries and Galloway Integration Joint Board

External Audit Plan for the financial year ending 31 March 2018

Audit and Risk Committee 18 December 2017 and finalised 31 March 2018

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Manager



Our audit at a glance



Performance materiality is set at 75% and trivial is 5% of materiality. This reflects minimal audit adjustments in prior year and our understanding of the IJB in a year 2 audit cycle.



Materiality is set at 1.6% of gross expenditure based on 2016/17 audited information (£4.5 million). Previous year it was 1% of gross expenditure



We have identified a significant risk of management override of controls as set out in International Standards on Auditing (ISAs UK)

An audit
underpinned by
quality and adding
value to you



We fulfil our responsibilities per ISAs (UK) and the Audit Scotland Code of Audit Practice throughout our work.



At the planning stage we have identified other audit risks as being the risk of fraud in expenditure recognition as set out in Practice Note 10.



Our audit is undertaken in accordance with the Code of Audit Practice and reflects the wider scope nature of public audit. Our wider scope risks identified are: Financial sustainability over the medium term and governance and transparency.

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Overarching principles of our audit

Our audit is risk based and undertaken in accordance with the relevant International Auditing Standards (ISAs) (UK and Ireland) and the Audit Scotland Code of Audit Practice 2016.

Our overall objective is a robust, quality-focused external audit which adds value through wider insights and challenge. Our audit foundations are:

- professional scepticism
- a focus on audit risks and key areas of management judgement
- sharing our wider insights across the sector (Scotland and UK)
- use of specialists to support our work where relevant
- using IDEA our data analytical software to effectively and efficiently test your balances
- clear and upfront communications, with regular communication during the year
- Reporting with focused actions which will support you in improving your controls/operations
- We will aim to not duplicate the work of your internal auditors. We will consider the internal audit plan for 2017/18 and identify any particular areas of risks that we either need to reflect in our approach or are relevant to our wider scope audit work. We will continue to review internal audit work throughout the year and maintain an ongoing, open, dialogue with internal audit.

Specific areas we will look to add value to Dumfries and Galloway Integration Joint Board (“the IJB”) during 2017/18, identified as part of our planning work and reflection on prior year include:

- We will actively share relevant Audit Scotland and Grant Thornton publications with Senior Management and the Audit and Risk Committee, identifying particular areas for consideration.
- Should any new accounting changes or governance updates emerge during the year we will providing a briefing for the Audit and Risk Committee. We will also pro-actively work with management during the year to discuss any emerging matters and seek to reach agreement on the treatment of these in advance of year-end.



External Audit deliverables for 2017/18 – Audit and Risk Committee

- External Audit Plan (this document)
- Annual Report to those Charged with Governance and the Controller of Audit (September 2018)
- Audit opinion (September 2018)
- Management letter of representation (September 2018)



2017/18 Deliverables as set out in the Audit Scotland planning guidance (October 2017)

- Confirmation of agreed fee by end of March 2018
- Current Issues returns to Audit Scotland covering matters of ministerial or Auditor General interest and best value elements (January, March, July and October 2018)
- Submission of fraud returns to Audit Scotland – 27 April 2018



Planned Audit Scotland publications which may be relevant to the IJB

- Digital developments and projects – risks and issues
- Supporting Scotland’s economic growth (Spring 2018)
- Changing models of health and social care (Autumn 2018)

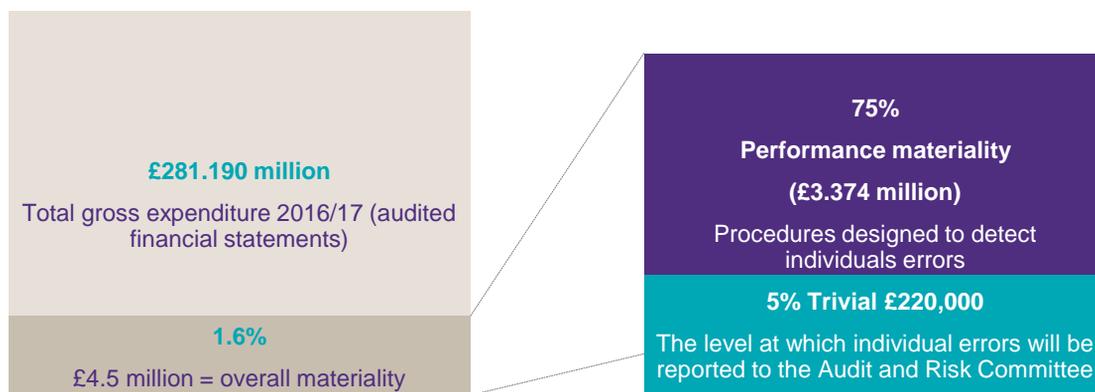
Audit approach and materiality



We undertake your audit in accordance with International Standards on Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). On an annual basis we are required to give an opinion as to whether the Financial Statements:

- give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Annual Governance Statement, management commentary, that are consistent with the disclosures in the financial statements
- audited parts of the remuneration report have been prepared in accordance with the guidance

In performing our audit we apply International Standards on Auditing (UK) 320: Materiality. Our materiality for 2017/18 is shown below. We will revise this on receipt of the unaudited financial statements for 2017/18 once received:



Overall materiality

We have calculated overall materiality in line with gross expenditure, as is recognised as a common measure in the public sector. This is in line with prior year. As this is our second year of the audit, and taking into account the level of errors and adjustments in prior year, and the context of the IJB's activities we feel it is appropriate to increase our materiality benchmark to 1.6% (was 1% in 2016/17). Under our audit methodology we typically set materiality within the benchmark range of 0.5% up to 2%.

Performance materiality

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We have increased this for 2017/18 to 75% (65%) in prior year. This does not impact on the financial statement balances we undertake substantive testing on, as all balances are in scope per prior year, but will impact on sample sizes.

Trivial

Under ISA 540 we are required to set an amount below which we consider misstatements would be clearly trivial, and therefore when accumulated we would not expect that they would have a material impact on the financial statements. Misstatements identified below this level would not be reported to the Audit and Risk Committee (in their role as those charged with governance).

Misstatements above trivial (corrected and uncorrected) will be reported to the Audit and Risk Committee in our Annual Report to those charged with governance.

Going concern considerations

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

A risk based audit methodology

Our understanding of the IJB

This is our second year as the external auditors of the IJB appointed under the Audit Scotland framework. In 2016/17 the IJB received funding of £285.484 million consisting of £63.913 million from the Dumfries and Galloway Council and £221.572 million from NHS Dumfries and Galloway. The IJB approved a balanced budget for 2017/18 and reflected the context of the Scottish Government budget for 2017/18 and the respective local authority and NHS settlements. The baseline budget for 2017/18 was £271.514. While an additional £10 million of non-recurrent funding has been provided in 2017/18 to meet funding pressures, the delivery of a balanced budget will be a challenging. The IJB looks to deliver recurring savings while facing increasing demand and cost pressures on services.

The Integration scheme and subsequent funding agreements between the IJB, Dumfries and Galloway Council and NHS Dumfries and Galloway confirm that for 2017/18 any overspends would be supported by the party who originally delegated the budget if financial balance could not be achieved by the IJB.

In order to meet performance objectives within financial constraints, the IJB has a Business Transformation Programme to deliver recurring savings in the region of £2 million per annum for 2017/18 and 2018/19. These are monitored through the Performance and Finance Committee during 2017/18, and are supported by detailed templates to ensure consistency in thinking and approach.

Overview of our audit risks identified at planning and our proposed approach

Risk of fraud in revenue and expenditure

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The Financial Reporting Council's Practice note 10 (revised), states that for public sector entities, auditors should also consider the risk that material misstatements occur by the manipulation of expenditure recognition.

Given the IJB's income comes from agreed levels of funding from NHS Dumfries and Galloway and Dumfries and Galloway Council, we have rebutted the presumed risk of improper recognition of revenue. However, we consider the risk of manipulation of expenditure incurred by the IJB.

- Perform cut off at year end on pre and post year end transactions and recording
- Walkthrough of the key expenditure controls in place including authorisation
- Review of the Integration scheme and terms of funding, to ensure that expenditure has been incurred in accordance with these
- Obtain confirmation of transactions during the year and any balances held at

Management override of controls

As set out in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and preparing fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Therefore, there is a presumed risk that management override of controls is present in all entities.

- A focus on understanding how/where management override of controls may occur
- Review of the controls over journal entries
- Understanding key areas of judgement within the Financial statements and the basis for these judgements and the application of accounting policies
- Reviewing unusual and/or significant transactions

The Risk

Our planned response

Specific areas of focus

During the course of our audit we may apply a lower level of materiality to specific balances or transactions in the financial statements. This reflects areas where there is a greater degree of interest or sensitivity on the amounts reported in the financial statements. Examples include the Remuneration and Staff Reports where due to the nature of the amounts reported we will apply a lower level of materiality.

Wider scope audit – what this means for the 2017/18 IJB audit

Financial sustainability

Across the public sector are financial pressures with reductions in Scottish Government Funding for 2017/18 and forecasted further reductions in future years. The IJB face a number of challenges including an ageing population; reducing acute admissions and shifting the balance of care.

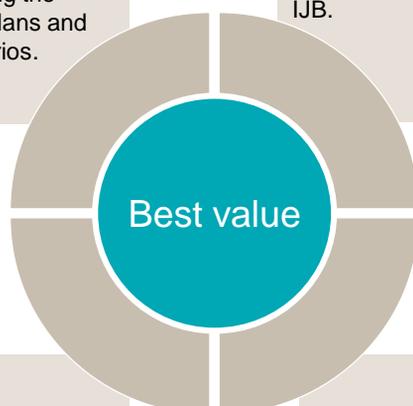
While the IJB anticipate meeting financial targets in 2017/18 there are a number of known financial pressures for future years. Management recognise the need for sustainable transformational savings.

Our Response: We will continue to discuss financial sustainability with the IJB Management. We will review the financial plans in place, including the scenarios set out, the governance of the plans and regular reporting on future financial scenarios.

Financial management

No specific financial management risks have been identified for 2017/18. The Integration scheme and funding agreements between the IJB, Dumfries and Galloway Council and NHS Dumfries and Galloway confirm that any overspends in 2017/18 would be supported by the party who originally delegated the budget if financial balance could not be achieved.

However, we will continue to consider the IJB's financial management arrangements informed through the work of internal audit and the high level financial framework of policies and procedures. This will include the level of oversight and scrutiny of expenditure incurred by NHS Dumfries and Galloway and Dumfries and Galloway Council on behalf of the IJB.



Governance and transparency

The IJB Board and officers are responsible for establishing robust governance arrangements. During 2017/18 these arrangements continue to be developed. This includes ensuring effective systems of internal control, including arrangements to safeguard public funds and compliance with applicable laws and regulations. It is important that these arrangements are sufficient and appropriate and embedded within the organisation to support decision making and the delivery of the strategic aims of the IJB.

Our Response: We will consider whether the IJB can demonstrate that governance arrangements are appropriate and operating effectively. This includes effective scrutiny, challenge and transparency on decision making and financial and non financial performance.

Value for money

No specific risks were identified in relation to the IJBs arrangements for effectively utilising its resources and arrangements in place to continually improve services.

However, we will consider the IJB's performance management framework and how they capture and measure performance and outcomes. We will also consider progress against the key strategic corporate plans and how this is being reported and monitored.

Our planned work, like our financial statements work, is risk based and proportionate. We will provide conclusions on these four dimensions in our final report, based on the work we have undertaken during the year.

Appendices

Key audit deliverables and our team

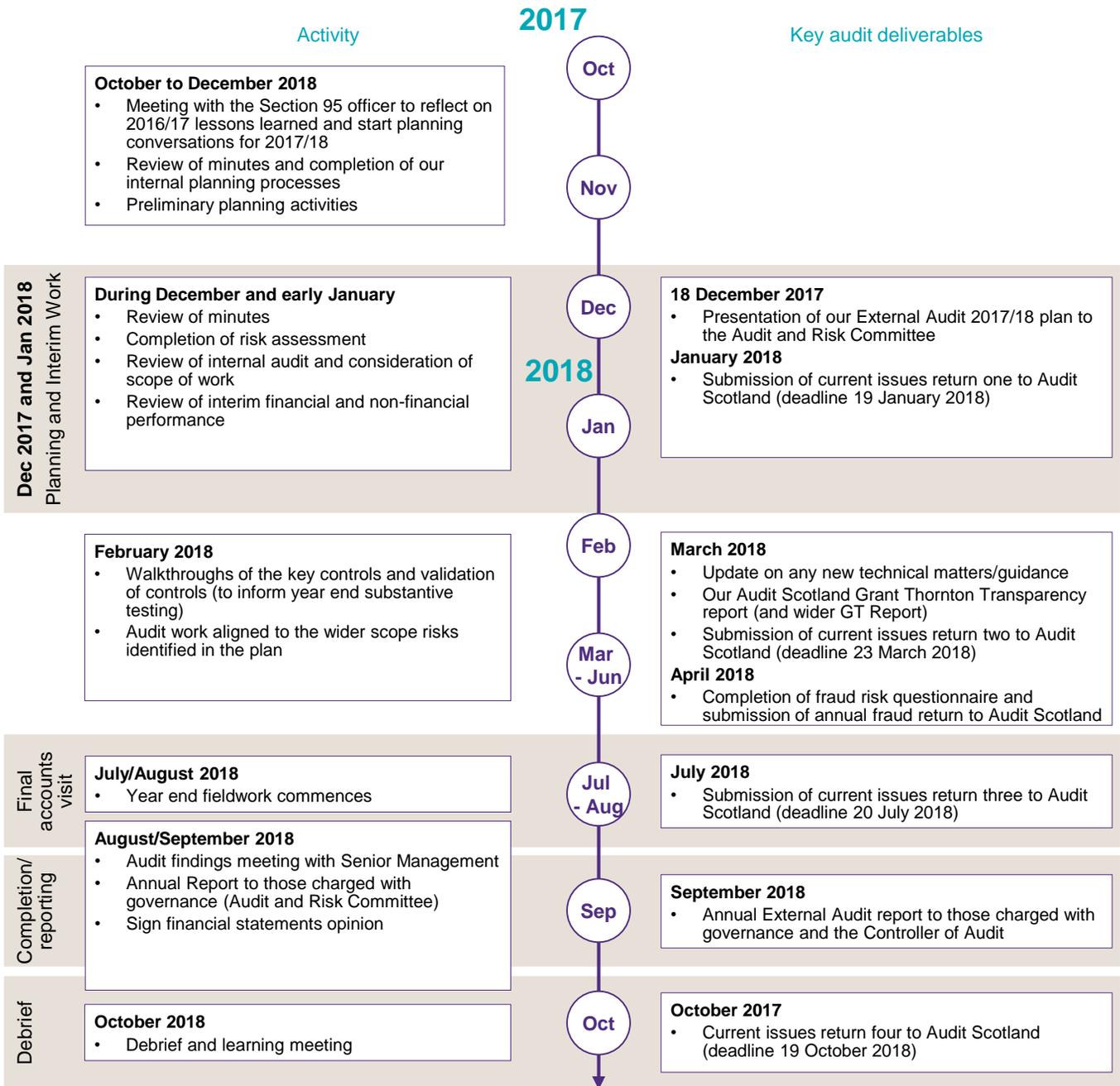
Independence and fees

Fraud arrangements

Respective responsibilities

Communication of audit matters with those charged with governance

Key audit deliverables and our team



Our team

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In addition we will use our Accounting technical team as required

Fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	16,470
Pooled Costs	1,460
Contribution to Audit Scotland costs	1,050
Contribution to Performance Audit and Best Value	5,020
2017-18 Fee	24,000

Fees for other services

Service	Fees £
At planning stage we confirm there are no non-audit fees	Nil

The audit fee is calculated in accordance with guidance issued by Audit Scotland. In accordance with the Audit Scotland guidance we can increase the fee by up to 10% from the base fee set by Audit Scotland, depending on risk factors identified by us as your external auditors. We cannot reduce the fee from the baseline set out by Audit Scotland. We have agreed with management to set the fee in accordance with Audit Scotland guidance.

Typically our fee assumptions include:

- supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- the scope of the audit, and the IJB activities will not change significantly from planned
- the IJB will make available management and accounting staff to help us locate information and to provide explanations. We reserve the right to charge an additional fee for any additional work.
- We will only receive (and audit) 3 sets of accounts (1st draft; amended draft and final)
- Specific balances such as pensions and valuations of assets are supported by an independent specialist

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Annual Report to those charged with governance at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at the IJB.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relations to management override of controls.
- Leading a discussion with those charged of governance (for the IJB this is assumed to be the Audit and Risk Committee) on their view of fraud. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit.

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is the IJB responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we work with the IJB to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

In addition, as set out in the Audit Scotland Code of Audit Practice we have a role in reviewing the IJB arrangements in response to the national fraud initiative exercise.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on an annual basis (no later than end of April 2018)

Respective responsibilities

As set out in the Code of Audit Practice (pages 10 to 16) there are a number of key responsibilities you as an organisation are responsible for, and others, as appointed auditors we are responsible for. These are summarised below:

Area	The IJB Responsibilities
Corporate governance	<ul style="list-style-type: none"> Establishing arrangements for proper conduct of its affairs Legality of activities and transactions Monitoring adequacy and effectiveness of arrangements (inc role of those charged with governance)
Financial statements	<ul style="list-style-type: none"> Preparing financial statements which give a true and fair view of their financial position Maintaining accounting records and working papers Putting in place systems of Internal Control Maintaining proper accounting records Preparing and publishing an annual governance statement, management commentary and remuneration report Effective systems of internal control as well as financial, operational and compliance controls – supporting achievement of objectives and secure value for money
Financial position	<ul style="list-style-type: none"> Proper arrangements to ensure financial position is soundly based and responsibility to ensure arrangements secure best value
Fraud and error	<ul style="list-style-type: none"> Establishing appropriate arrangements for prevention and detection of fraud, error, irregularities, bribery and corruption and affairs are properly managed

Our responsibilities



- Undertake statutory duties and comply with professional engagement and ethical standards
- Provide an opinion on financial statements
- Review and report on, as appropriate, other information eg annual governance statements, management commentary, remuneration reports
- Notify the Controller of Audit when circumstances indicate a statutory report may be required
- Demonstrate compliance with wider public audit scope

How do we do this in practice



- By reviewing and providing judgements and conclusions on the IJB arrangements including those across the wider scope of audit dimensions.
- Consideration of the effectiveness of performance management arrangements
- Suitability and effectiveness of corporate governance arrangements in year
- Financial position and arrangements for ensuring financial sustainability in the medium to longer term
- Review of other information in line with our knowledge and understanding of the IJB
- Ongoing dialogue and engagement with Audit Scotland during the year

Weaknesses and risks identified by us as your auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Views about the qualitative aspects of the IJB accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while our Annual Report to those Charged with Governance will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the IJB Management and the Audit and Risk Committee.

