

# East Lothian Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for the Members of the East Lothian 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 East Lothian Integration Joint Board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are 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>Focussed testing of journal entries and accruals.</p> <p>Review of accounting estimates.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Service auditor assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p>
<p><b>2 Link between ELC and IJB budget and expenditure</b></p> <p>During our 2016/17 audit we found it difficult to obtain information on how the ELC expenditure in the IJB accounts is distributed across the delegated functions for Social Care within the IJB budget.</p>	<p>IJB Chart of Accounts.</p> <p>Assurances from ELC to the IJB Management team over budget against spend.</p> <p>Assurances received from the work by the external auditors of ELC.</p>	<p>Focussed substantive testing of social care expenditure, from ledger entries to invoices.</p>

Audit Risk	Source of assurance	Planned audit work
<p>There is a risk of insufficient transparency of expenditure. Consequently the Partner cannot readily be assured that IJB expenditure has been incurred in compliance with the reason for which it was committed.</p>		
<b>Wider dimension risks</b>		
<p><b>3 Financial sustainability</b></p> <p>The IJB has no financial risk sharing agreement with its partners to address end-year overspends. Current forecasts indicate that the IJB will overspend in 2017/18. However, unlike last year, the partners have provided no guarantees to underwrite current year overspend.</p> <p>There is a risk that neither Partner takes responsibility to fund the 2017/18 overspend and rectify any in subsequent years.</p>	<p>In line with the protocol set out in the Integration Scheme, Partners are working with the IJB on their respective recovery plans to break-even.</p> <p>Ongoing dialogue with partners throughout the financial year on outturn.</p>	<p>Ongoing review of CFO monthly financial updates to the Board.</p> <p>Review of recovery plans put in place by Partners for reasonableness and future forecasting.</p>
<p><b>4 Financial management</b></p> <p>The IJB has not yet prepared a financial plan which supports the Strategic Plan; it is expected that the financial plan will be complete by the end of the current financial year.</p> <p>The absence of a financial plan means there is a risk that any issues relating to financial sustainability and delivery of the Strategic Plan in the medium to long term are not identified sufficiently early to be resolved with Partners.</p>	<p>Financial plan to be in place by end of March 2018.</p> <p>Workshop held in January 2018 for the IJB to agree principles and set the direction of travel.</p> <p>Financial Assurance paper to the February 2018 IJB on progress towards 2018/19 financial plans.</p> <p>Throughout the year, Partners have been providing indicative three year allocations along with an analysis of the financial pressures</p>	<p>Attendance and review of minutes of Board meetings to assess progress towards developing and agreeing a long term financial plan.</p>
<p><b>5 Governance and transparency</b></p> <p>Whilst the IJB Integration Scheme makes reference to IJBs having a workforce plan in place within 6 months of the Strategic Plan, the ELC IJB workforce plan remains outstanding approximately two years after publication of the Strategic Plan in 2016.</p> <p>There is a risk that without a workforce plan, the IJB may not be able to adequately deliver its strategic objectives.</p>	<p>The Partnership has set up a group to develop a workforce plan and are planning to deliver the plan before the end of March 2018.</p>	<p>Ongoing attendance at Board meetings to monitor progress in developing a 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 East Lothian Integration Joint Board and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide the Chief Officer, Chief Financial Officer (the 'proper officer'), members of the East Lothian IJB Audit and Risk Committee 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.

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## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Report including ISA 260 requirements	By 30 September	TBC
Signed Independent Auditor's Report	By 30 September	TBC

## Audit fee

7. The proposed audit fee for the 2017/18 audit of East Lothian IJB is £24,000 (2016/17: £17,470). In determining the audit fee we have taken account of the risk exposure of the East Lothian 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 on 30 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 outwith our planned audit activity.

## Responsibilities

### Audit and Risk Committee and Chief Financial 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 East Lothian IJB Audit and Risk Committee, as those charged with governance, of their responsibilities.

### **Appointed auditor**

**11.** Our responsibilities, as independent auditor, are established by The Public Bodies (Joint Working) (Scotland) Act 2014, The Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**12.** Under the Local Government (Scotland) Act 1973, the Accounts Commission is responsible for appointing the external auditors of local government bodies including councils, joint boards and bodies falling within section 106 of the Act. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards (IJBs) should be treated as if they were bodies falling within section 106 of the 1973 Act.

**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 East Lothian IJB 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 the East Lothian 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 East Lothian 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 of the financial position of the audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.



## 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 East Lothian Integration Joint Board 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 for 2016/17.	£1.54 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 75% of planning materiality.	£1.15 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.	£0.015 million

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

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	By 30 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	By 30 June 2018
Latest date for final clearance meeting with Chief Financial Officer	TBC
Issue of letter of representation and proposed independent auditor's report	By 30 September 2018
Agreement of audited unsigned annual accounts	By 30 September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 September 2018
Independent auditor's report signed	By 30 September 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. Internal audit for the East Lothian IJB is provided by the internal audit team at East Lothian Council and is overseen by their Internal Audit Manager who is the Chief Internal Auditor for the East Lothian IJB.

### Adequacy of Internal Audit

**21.** We carried out an early assessment of the internal audit function at East Lothian Council and concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

### Areas of Internal Audit reliance

**22.** In respect of our audit responsibilities we plan to consider the following areas of internal audit work including:

- corporate governance, including key internal controls
- financial governance, including key internal financial controls
- performance management.

## 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 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 Partnership has arrangements in place to ensure systems of internal control are operating effectively
- whether the Partnership can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Partnership has assured itself that its financial capacity and skills are appropriate
- whether the Partnership 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 Board 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 Board can provide evidence that it is demonstrating value for money in the use of its resources
- the Board can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the Board can demonstrate that outcomes are improving.

### 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 the East Lothian 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 the East Lothian 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 has recently secured new 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 East Lothian 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 East Lothian 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.

# East Lothian 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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