



Scott-Moncrieff
business advisers and accountants

Edinburgh Integration Joint Board

External Audit Plan
2017/18

March 2018

Contents

- Introduction..... 1
- Respective responsibilities 3
- Audit strategy 8
- Annual accounts..... 11
- Wider Scope Audit..... 14
- Audit outputs, timetable and fees 20
- Appendix 1: Your audit team 23
- Appendix 2: Statement of understanding..... 24

1

Introduction

Introduction

Overview

1. Public audit helps create a strong and effective system of financial accountability and transparency which supports the best use of public money in the public interest.
2. This document summarises the work plan for our 2017/18 external audit of the Edinburgh Integration Joint Board (“the IJB”).
3. The core elements of our work include:
 - an audit of the IJB’s 2017/18 annual accounts; and
 - a review of arrangements for governance and transparency, financial management, financial sustainability and value for money; and
 - any other work requested by Audit Scotland.

Audit appointment

4. The Accounts Commission is an independent body appointed by Scottish Ministers responsible for securing the audit of local authorities and other local government bodies. The Commission’s work is governed mainly by the Local Government (Scotland) Act 1973.
5. Audit Scotland is an independent statutory body that provides the Accounts Commission with the services required to carry out their statutory functions, including monitoring the performance of auditors through a quality control process.
6. The Accounts Commission has appointed Scott-Moncrieff as external auditor of the IJB for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
 - the responsibilities of Scott-Moncrieff as external auditors;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs, timetable and fee; and
 - background to Scott-Moncrieff and the audit team.

Confirmation of independence

7. International Standards on Auditing (UK) (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
8. We confirm that we will comply with Financial Reporting Council’s (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

Adding value through the audit

9. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the IJB through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.
10. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX
11. While this plan is addressed to the IJB, it will be published on Audit Scotland’s website, www.audit-scotland.gov.uk.

2

Respective responsibilities

Respective responsibilities

Auditor responsibilities

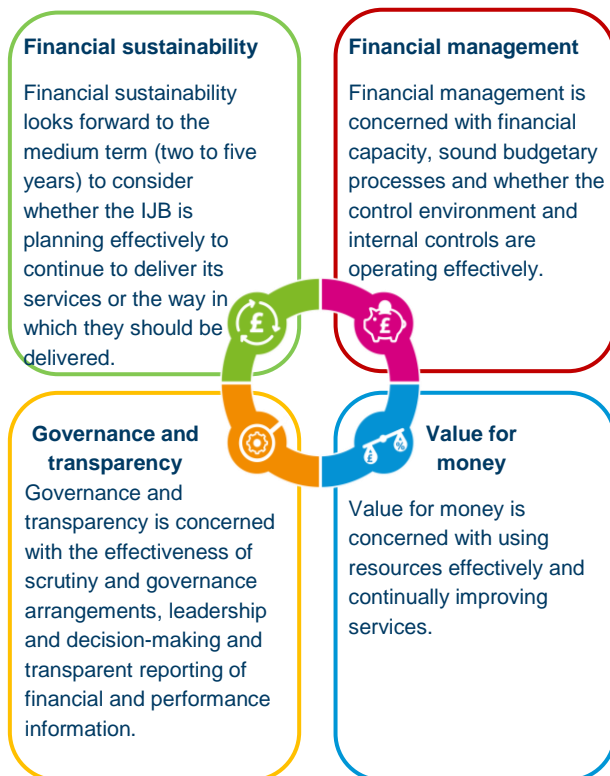
Code of Audit Practice

12. The Code of Audit Practice (the Code) sets the framework for public audit in Scotland and outlines the responsibilities of auditors appointed by the Accounts Commission.
13. The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance not only on the annual accounts, but also on the appropriateness, effectiveness and impact of corporate governance, performance management and financial sustainability.
14. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable areas, as summarised in Exhibit 1. Our findings and conclusions on these four audit dimensions will contribute to an overall assessment and assurance on best value. We will apply the wider scope in full at the IJB.

Our responsibilities

15. The Code requires auditors to meet the highest professional standards and it is a condition of our appointment that we comply with it.
16. Our responsibilities under the Code are to:
 - undertake statutory duties, and comply with professional engagement and ethical standards;
 - provide an opinion on the IJB's financial statements;
 - review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
 - notify the Controller of Audit when circumstances indicate that a statutory report may be required; and
 - demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
 - suitability and effectiveness of corporate governance arrangements; and
 - financial position and arrangements for securing financial sustainability.

Exhibit 1: Wider scope public audit



17. Weaknesses or risks we identify 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 of matters arising from the audit 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.

Strategic audit priorities for local government audits

18. The Accounts Commission has set the following five strategic Audit Priorities that it expects auditors to consider in all work across local government:

- The clarity of the IJB's priorities and quality of long term planning to achieve these priorities;
- How effectively the IJB is evaluating and implementing options for significant changes in delivering services;
- How the IJB ensures members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future;
- How well the IJB is involving citizens in decisions about services and empowering local communities to identify and help deliver services in the future; and
- The quality of the IJB's reporting of its performance to enhance accountability to citizens and communities.

19. Our consideration of these priorities will be integrated into our 2017/18 audit work. The extent to which we will report on these will be dependent on the findings of our work as it relates to the four dimensions referred to above and is considered in Section 5 of this plan.

IJB responsibilities

20. The Code also outlines the responsibilities of audited bodies. It states that the IJB has 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 it to successfully deliver organisational objectives. The IJB's responsibilities, as identified within the Code, are summarised in Exhibit 2.

Exhibit 2 – IJB responsibilities

Area	IJB responsibilities
<p>Annual accounts: The IJB must prepare annual accounts containing financial statements and other related reports.</p>	<p>The IJB has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the state of affairs of the IJB as at 31 March 2018 and of the net expenditure for the year, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures; • maintaining proper accounting records; and • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.

Exhibit 2 – IJB responsibilities

Area	IJB responsibilities
<p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the IJB is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>The IJB is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is the IJB's responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>The IJB is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is the IJB's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Governance and transparency: 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.</p>	<p>The IJB is responsible for establishing arrangements to ensure the proper conduct of their affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>The IJB is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>

Exhibit 2 – IJB responsibilities

Area	IJB responsibilities
<p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>The IJB has a responsibility to monitor progress with its strategic priorities and to consider whether those objectives have led to the delivery of appropriate services and value for money.</p> <p>The IJB must prepare a performance report each year setting out an assessment of its performance in planning and carrying out integration functions. The report must include information on:</p> <ul style="list-style-type: none"> • Service planning. • Financial planning and performance. • The achievement of best value in planning and carrying out integration functions. • Performance in respect of localities. • Any inspections carried out by scrutiny bodies. • Any review of the Strategic Plan.
<p>Best value: Best value is continuous improvement in the performance of the authority’s functions.</p>	<p>The IJB has a responsibility to manage its affairs to achieve best value in the use of its resources. In securing best value, bodies should maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development</p>

3

Audit strategy

Audit strategy

Risk-based audit approach

21. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the IJB. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



22. Planning is a continuous process and our audit plans are therefore updated during the course of the audit to take account of developments as they arise.

Communications with those charged with governance

23. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with the IJB that these communications will be through the Audit and Risk Committee.

Professional standards and guidance

24. We perform our audit of the financial statements in accordance with ISAs (UK), the International Standard on Quality Control 1 (UK), the FRC's Revised Ethical Standard, and applicable Practice Notes and other guidance issued by the FRC.

Partnership working

25. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

26. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps to identify common priorities and risks, treat consistently any issues that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.

27. Audit Scotland undertakes national performance audits on issues affecting the IJB. We will review the IJB's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We will assess the extent to which the IJB uses the national performance reports as a means to help improve performance at the local level.

28. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal audit

29. We are committed to avoiding duplication of audit effort and ensuring an efficient use of the IJB's total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to the IJB is used efficiently and effectively.

Shared systems and functions

30. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. The IJB relies on financial information provided by the City of Edinburgh Council and NHS Lothian. Scott-Moncrieff is the appointed auditor for both of the partner organisations and we will ensure a holistic approach is taken to the audit of all three bodies.

Other inspection bodies

31. We will contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. In May 2017 the Care Inspectorate and Healthcare Improvement Scotland reported on the joint inspection of adult health and social care services in Edinburgh. The report identified that substantial improvements were required in some health and social work services for older people in Edinburgh. Further consideration of the impact of this review is noted in Section 5: *Wider scope audit*.
32. Through enquiry of management as part of our initial planning discussions, we have not identified any other inspection work planned for 2017/18 which is directly relevant to our audit, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2017/18 and update our plans as necessary.

4

Annual accounts

Annual accounts

Introduction

- 33. The IJB’s annual accounts are an essential part of accounting for the stewardship of the resources made available to it and the financial performance in the use of those resources. This section sets out our approach to the audit of the IJB’s annual accounts.
- 34. The annual report and accounts comprise the financial statements, a management commentary, an annual governance statement, a remuneration report and a statement of responsibilities.

Approach to audit of financial statements

- 35. Our opinion on the financial statements will be based on:

Risk-based audit planning

- 36. We focus our work on the areas of highest risk in all aspects of our work, including our audit of the annual accounts. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each element of the annual accounts.

An audit of key systems and internal controls

- 37. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
- 38. We will take cognisance of any relevant internal audit work and we will update the risk assessment following our evaluation of systems and controls and this will ensure that we continue to focus attention on the areas of highest risk.

Audit of the financial statements

- 39. During our audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.
- 40. Our audit will seek to provide reasonable assurance that the annual accounts are free from material misstatement and comply with the Code of Practice on Local Authority Accounts in the United Kingdom 2017/18 (the Code).

Independent auditor’s report

- 41. Our opinion on whether the annual accounts give a true and fair view of the state of the affairs of the IJB as at 31 March 2018 and of the surplus or deficit on the provision of services for the year then ended will be set out in our independent auditor’s report which will accompany the financial statements.
- 42. We also provide an opinion on the audited part of the remuneration report, the management commentary and the annual governance statement.

Materiality

- 43. Materiality is an expression of the relative significance of a matter in the context of the annual accounts as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor’s report.
- 44. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement. Our initial assessment of materiality for the annual accounts is £10m. Our assessment equates to approximately 1.6% of the IJB’s forecast 2017/18 gross expenditure. We consider this to be the principal consideration for the users of the accounts. We will continue to review our assessment of materiality throughout the course of our audit.
- 45. We set a performance materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

Area risk assessment	Weighting	Performance materiality
High	45%	£4.5m
Medium	55%	£5.5m
Low	70%	£7m

46. We will report the following misstatements identified through our audit:
- All material corrected misstatements;
 - Uncorrected misstatements with a value in excess of £200,000; and
 - Other misstatements below the £200,000 threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the annual accounts

47. Our initial assessment of the risk of material misstatement in the annual accounts is set out below, including how the scope of our audit responds to those risks. Any significant changes to our assessment during the audit will be reported in our annual audit report.

1. Management override

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240.



48. In response to this risk we will review the IJB's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

2. Revenue recognition

Under ISA 240 - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that the IJB could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position.



49. We will evaluate each type of revenue transaction and review the controls in place over revenue accounting. We will consider the IJB's key revenue transactions and streams and carry out testing to confirm that the IJB's revenue recognition policy is appropriate and has been applied consistently throughout the year.

3. Risk of fraud in the recognition of expenditure

The FRC published a revised Practice Note 10, which applies to the audit of financial statements of public sector bodies in the UK, for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure. In line with the practice note, our presumption is that the Board could adopt accounting policies or recognise expenditure in a way that materially misstates the Board's financial performance.



50. In response to this risk we will evaluate the significant expenditure streams (excluding payroll costs which we do not consider to be a significant audit risk area) and review the controls in place over accounting for expenditure. We will consider the key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

5

Wider scope audit

Wider Scope Audit

Introduction

51. As described in Section 2, the Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money. Our findings over the four wider scope audit dimensions contribute to an overall assessment and assurance on best value.

Risk based approach

52. Our planned work against the four dimensions is risk based and proportionate. Our initial assessment builds upon our understanding of the IJB’s priorities and risks which we developed in 2016/17, discussions with management and review of IJB minutes and key strategy documents.

53. In 2017/18 we have also considered the following risk areas as they relate to IJB:

- EU withdrawal
- New financial powers
- Ending of public sector pay cap
- Response to cyber security risks
- Openness and transparency.

54. At this stage of our audit planning, we have identified four significant risks to the wider scope of our audit, one in each of the four audit dimensions as outlined below.

55. Audit planning is a continuous process and we will provide an update to the Audit and Risk Committee if our assessment changes significantly during the audit process.



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the organisation’s planning processes support the future delivery of services.

Consideration	Our audit approach
<p>The IJB has been able to demonstrate arrangements for short term financial planning. However, it has not yet fully developed medium or long-term financial plans.</p> <p>Financial sustainability is wholly dependent on the IJB’s ability to work effectively with the council and health board to deliver the required savings and improvements. While responsibility for the actual delivery of the planned savings will fall to the IJB’s partners, it is imperative that the IJB can demonstrate it has taken a strategic approach to the identification of appropriate savings options.</p> <p>The IJB has not yet developed an integrated workforce plan, and as a result is not meeting the requirements of the integration scheme.</p>	<p>During our 2016/17 audit we will consider the IJB’s financial standing. This will involve a review of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting.</p> <p>It is important that such arrangements are adequate in order to properly control the IJB’s directions and its use of resources.</p> <p>At this stage of our audit planning, we have identified one significant risk to the wider scope of our audit in relation to financial sustainability. Further commentary on that risk and our planned response if outlined below.</p>

Key audit risk 4. Financial sustainability

The IJB has been able to demonstrate arrangements for short term financial planning. However, it has not yet fully developed medium or long-term financial plans. The IJB recognises that it faces significant challenges over the medium term (5 years) due to increasing demand for services and a climate of constrained financial resources and it has begun to develop a strategic approach to financial planning for the next 3-5 years. At this stage, estimates made based on existing service provision, projected increases in costs and the available information on income indicates deficits in each of the 5 years (from £32.541m in 2018/19 to £116.544m in 2022/23).

Without a medium term financial plan in place, the IJB cannot demonstrate how it will deliver the key priorities identified in their strategic plan within the financial resources that will be available.



56. We will consider whether the IJB has developed adequate arrangements that allow it to demonstrate the financial sustainability of the services it directs. Our conclusion will be based on a review of the IJB's strategic and financial planning arrangements, including the identification, monitoring and reporting of efficiency savings plans.



Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Consideration	Our audit approach
<p>In 2016/17 we found that the IJB had adequate financial management arrangements in place and reported which had continued to develop over the course of the year. However, we considered there was scope to strengthen financial reporting.</p> <p>The 2017/18 IJB budget was principally prepared on an incremental basis, taking cognisance of known cost pressures. Any shortfalls identified resulted in recovery actions and savings plans being identified.</p> <p>As part of the financial planning process, the IJB completed a detailed assessment of whether budget proposals from partners represent a fair share of the resources available to them. The IJB deemed the 2017/18 budget proposals from the City of Edinburgh Council and NHS Lothian to be appropriate and fair.</p>	<p>During our 2017/18 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none">• Whether the IJB has arrangements in place to ensure systems of internal control are operating effectively;• Whether the IJB can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;• How the IJB has assured itself that its financial capacity and skills are appropriate; and• Whether the IJB has established appropriate and effective arrangements for the prevention and detection of fraud and corruption. <p>At this stage of our audit planning, we have identified one significant risk to the wider scope of our audit in relation to financial management. Further commentary on that risk and our planned response is outlined below.</p>

Key audit risk 5. Projected in-year deficit

Delegated services reported an overspend of £4.0m for the first 7 months of 2017/18, which was projected to rise to £7.1m by the end of the financial year without any further action. At the planning stage of our audit ongoing actions were being progressed to reduce the predicted in-year deficit to achieve a year-end balanced position. However, at December 2017 only limited assurance could be given of the achievement of break even.

There is a risk that the IJB will not achieve the planned outturn position which could have a detrimental impact on short and medium term plans for the delivery of directed services. There is also the potential for underperformance to have a wider impact on, or be reflective of underlying challenges to, longer term financial sustainability.



57. During our audit we will consider the approach the IJB has taken to financial reporting in 2017/18 as well as the actions identified and carried out to respond to financial challenges that have occurred during the year. We will consider the partnership approach taken to financial management and reporting across the IJB, the City of Edinburgh Council and NHS Lothian.



Governance and transparency

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.

Consideration	Our audit approach
<p>This is only the second year that the IJB has been responsible for delivering its functions and the governance framework has continued to develop.</p> <p>IJB meetings are held in public with publication of papers, location and timing in advance through the City of Edinburgh Council's website. Minutes of sub-group meetings are published as part of the IJB papers.</p> <p>The Chief Officer left post on 28 August 2017. Since that time an Interim Chief Officer has been in post and a new permanent Chief Officer appointment is expected in early 2018. Additionally, there have been a number of changes to the composition of the IJB and its committees during 2017/18 due to changes in NHS Board membership and Council membership, as well as changes to non-voting members.</p> <p>The IJB recognises that further and ongoing development of the risk framework has been required during 2017/18.</p> <p>Internal audit provided a "disclaimer opinion" on the adequacy of the framework of Governance, Risk Management and Control in 2016/17.</p>	<p>We will review the effectiveness of the IJB's governance framework and the extent to which the IJB and committee roles, membership and terms of reference comply with current guidance.</p> <p>We will consider whether the information provided to the IJB and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>As part of our work over governance and transparency we will consider the impact of changes to the membership of the Board on the effective functioning of board and committee meetings. We will also consider what induction processes have been in place.</p> <p>Our work will include consideration of how risk management has been addressed within the IJB. We will also consider the IJB's internal audit arrangements to determine their role in examining the control systems established by management.</p>

Key audit risk 6. Recovery plan

During 2017/18 the interim management team for the Edinburgh Health and Social Care Partnership (the group overseeing operational delivery of the IJB's directions to its partners) considered that there was a clear requirement to bring greater clarity and focus to the activities of the partnership, with an emphasis on performance, quality and finance. At its development session on 13 October 2017 the IJB considered a "Statement of Intent" setting out:

"a high-level recovery plan to address the immediate, short and medium-term challenges faced by the Partnership, the EIJB and the parent bodies. It is constructed around the three key pillars of quality, performance and finance."

The recovery plan outlined the following seven high-level themes as well as related commitments:

- Doing the basics well.
- Establishing a financial framework.
- Ensuring optimum quality.
- Improving relationships between the IJB and its partners
- Developing a performance framework.
- Developing strategies, with identifiable, manageable actions
- Clarifying and simplifying governance arrangements

The IJB has recognised that without a clear roadmap to work with, it cannot bring clarity to the partnership's activities, nor can the partnership support the IJB in effectively discharging its duties. This in turn would lead to suboptimal performance and quality, and financial imbalance.



58. As part of our 2017/18 audit we will consider the IJB's involvement in the development of the recovery plan as well as considering performance to date against the seven key themes (and the related commitments) within the recovery plan. More generally, in our role as appointed auditors to the IJB, City of Edinburgh Council and NHS Lothian, we will continue to consider the adequacy of governance arrangements in place across the partnership.



Value for money

Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.

Consideration

Arrangements to demonstrate value for money continued to develop during 2016/17, the first 'live' year for the IJB. We considered that further development in this area was still required and our 2016/17 annual audit report identified that the IJB faced significant challenges from delayed discharges and the weaknesses identified in the inspection of services for older people in Edinburgh.

In May 2017 the Care inspectorate and Healthcare Improvement Scotland reported on the joint inspection of adult health and social care services in Edinburgh. The report identified that substantial improvements were required in some health and social work services.

Our audit approach

We will work with the IJB to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.

We will consider how the IJB plans to monitor the impact it has on outcomes and whether it can demonstrate that there is sufficient focus on improvement.

We will seek evidence from the IJB that outcomes are improving and there is sufficient focus on improvement and the pace of it.

Consideration (continued)

The inspection was focused around the nine quality indicators and identified a number of areas of weakness. Seventeen specific recommendations for improvement were raised, all of which were accepted by the IJB. The IJB published a detailed improvement plan in response to the recommendations raised by the joint inspection.

The 2016/17 annual performance report focused on the nine national outcomes and utilised the national and local indicators to attempt to demonstrate progress to date. As part of the development of the performance management framework, we recommended that the IJB should ensure it adequately defines and communicates what it considers would be good performance against each performance measure.

Our audit approach (continued)

We will review the development of, and performance against, the detailed improvement plan in response to the joint inspection.

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that the IJB may have a direct interest in.

At this stage of our audit planning, we have identified one significant risk to the wider scope of our audit in relation to value for money. Further commentary on that risk and our planned response is outlined below.

Key audit risk 7. Whole system delays

The IJB recognised during 2016/17 that the levels of delayed discharges in the city present a particular risk to the partnership in providing the right care at the right time. To reflect the importance and urgency of the need to reduce the number and length of delayed discharges the IJB receives regular updates on performance in this area. During 2017-18, the performance has continued to worsen despite the focus given to the issue. Edinburgh has regularly had the highest number of delayed discharges of any integration authority in Scotland. In January 2018 the IJB reported that:

- The number of people whose discharge from hospital is delayed continues to exceed target levels.
- The main reasons continue to be waiting for packages of care (50% of the reportable total) followed by care home places (30%).
- Continued pressures are also evident in the community, with the number of people waiting for a package of care both increasing.
- The main challenges are the lack of availability of packages of care and of local authority funded care home places at the national contract rate.
- Actions are being taken to address these issues, including daily hub meetings, close working with partner providers, interim additional capacity over the short term, and market shaping and capacity planning in the longer term.

The IJB recognises that current levels and patterns of support are not sufficient to bring about the reduction required in the level of delay. There is a high level of unmet need in hospital and in the community, which has significant cost implications not reflected in the IJB's current financial forecasts and savings programmes.



59. We will monitor and report on performance in this area including progress against the improvement plan agreed with the Care Inspectorate, progress in reducing outstanding assessments, and in reducing the level of delayed discharges. As appointed auditors to the City of Edinburgh Council and NHS Lothian, we will ensure that a holistic approach is taken to the audit of this issue across all three partners.

A large orange circle with a white border containing the white number 6, positioned in the upper left quadrant of the page.

6

Audit outputs, timetable and fees

Audit outputs, timetable and fees

Audit output	Description	Target date
External audit plan	This report sets out the scope of our audit for 2017/18.	16 March 2018
Interim management report	If required, this report will summarise any significant findings from our interim work on accounting systems and corporate governance.	1 June 2018
Independent auditor's report	This report will contain our opinion on the truth and fairness of the annual accounts.	By 30 September 2018
Annual audit report	We will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work.	By 30 September 2018

Audit outputs

- 60.** Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate.
- 61.** The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

Audit fee	2016/17	2017/18
Auditor remuneration – Scott-Moncrieff	£18,000	£18,500
Pooled costs – Audit Scotland (AS)	£1,040	£1,460
Performance audit and Best Value – AS	£3,790	£5,020
Audit support costs - AS	£710	£1,050
Total expected fee	£23,540	£26,030

- 62.** Audit Scotland sets an expected fee for each audit that assumes the audited body:

- has sound governance arrangements that operate effectively throughout the year;
- prepares comprehensive and accurate unaudited accounts; and
- meets the agreed timetable for the audit.

The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on the auditor's experience, new requirements, or significant changes to the audited body.

- 63.** Audit Scotland requires fees to be agreed between the auditor and each audited body. Through the fee agreement process the auditor remuneration element of the fee may be varied by up to 20% above the expected level where the expected fee is below £25,000 and significant local issues require additional work to be undertaken. In exceptional circumstances, higher remuneration can be agreed with the prior agreement of Audit Scotland.
- 64.** The expected total audit fee set by Audit Scotland for the 2017/18 audit was £24,000. We propose setting the total audit fee at £26,030, which represents an uplift of 8.5% on the expected fee (12% on the auditor remuneration element). The proposed fee is £2,490 higher than 2016/17 reflecting a £500 increase on auditor remuneration and £1,990 increase on Audit Scotland central costs.

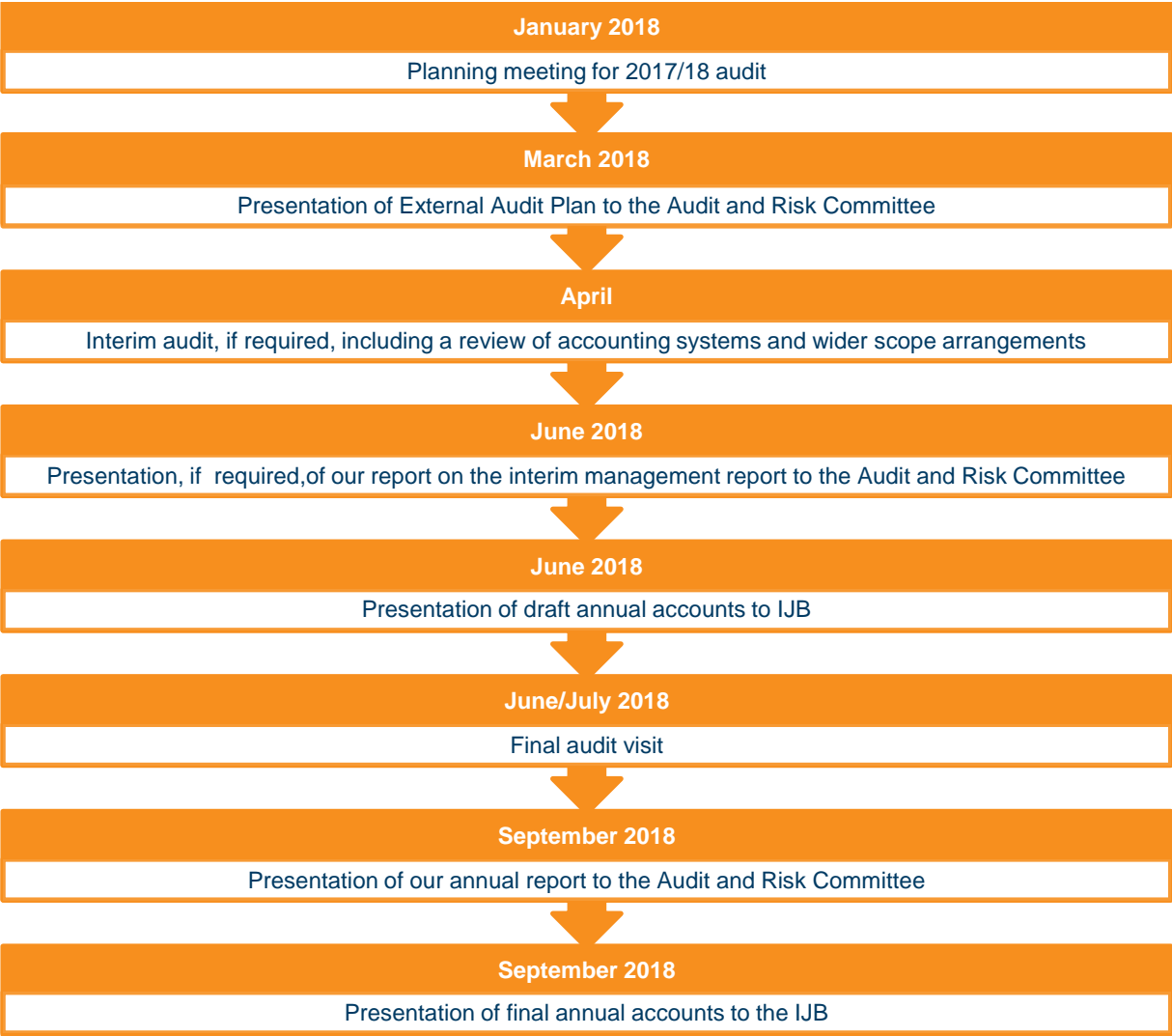
65. The proposed audit fee reflects the relative scale of the Edinburgh IJB and the significant audit work required to conduct a full wider scope audit under the new Code of Audit Practice, including the related significant audit risks reported in this plan.

66. The audit fee covers:
- the 2017/18 audit work and outputs described in this plan;
 - attendance at the Audit and Risk Committee;
 - access to advice and information on relevant audit issues; and
 - contributions towards Audit Scotland’s pooled costs.

67. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

68. The dates for our interim and final audits have been discussed with the Chief Finance Officer. A summary timetable, including audit outputs, is set out below:



7

Appendices

Appendix 1: Your audit team

Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 20 partners and 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL (0131) 473 3500	25 Bothwell Street Glasgow G2 6NL (0141) 567 4500	10 Ardross Street Inverness IV3 5NS (01463) 701 940

Extensive public sector audit experience

We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE Colleges. We also provide services to charities, schools, as well as private and public limited companies.

We have been external auditors within the public sector for at least fifty years, initially in local government. We became involved in NHS audits when Trusts were first established in 1993. Since then, our appointments have covered both external and internal audit across the public sector.

Scott-Moncrieff is also the appointed auditor to the IJB's partners: the City of Edinburgh Council and NHS Lothian. Your audit team is directly involved with the audit of the partner bodies.

Your audit team



Nick Bennett, Audit Partner
nick.bennett@scott-moncrieff.com

Nick has been involved in UK public sector auditing for 26 years. In the last 5 years he has been engagement partner for appointments in local government, the NHS, devolved and non-devolved central government and the European Union. Nick is also the engagement partner for the City of Edinburgh Council.

Nick has worked extensively with the Audit Scotland senior team to ensure good communication in relation to issues arising on the firm's audit appointments. He is a former Chair of CIPFA/LASAAC, and a current Committee member. He is a member of the ICAS Public Sector Committee and the Moore Stephens UK Public Sector Steering Committee and he also leads the Moore Stephens external audit services to the European Court of Auditors.

Michael Lavender, Audit Manager
michael.lavender@scott-moncrieff.com



Michael joined Scott-Moncrieff in 2008. He has been part of the external audit team of our local government and health bodies since he started with the firm.

Michael is heavily involved in the external audit of the City of Edinburgh Council and NHS Lothian. He also manages the audit of a number of our other public sector clients.

Appendix 2: Statement of understanding

Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of the IJB and Scott-Moncrieff.

Annual accounts

It is assumed that the annual accounts will be submitted for audit by 30 June in accordance with the statutory timetable and that appropriate working papers will be available to support the information contained within the annual accounts. It is also assumed that the relevant IJB staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit (i.e. 30 September). We will issue a financial statements strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for the IJB's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from the IJB during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the s95 officer.

Internal audit

It is the responsibility of the IJB to establish adequate internal audit arrangements. The audit fee is agreed on the basis that a satisfactory internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Nick Bennett. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

Agreement of terms

We shall be grateful if the IJB would consider and note this Statement of Understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



Scott-Moncrieff
business advisers and accountants