

# Fife Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Fife 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.

---

# Contents

---

<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Reporting arrangements	5
Audit fee	5
Responsibilities	6
<b>Audit scope and timing</b>	<b>7</b>
Financial statements	7
Materiality	7
Internal audit	9
Audit dimensions	9
Independence and objectivity	10
Quality control	11
Adding Value	11

# 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 Fife Integration Joint Board (the IJB). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Agreement of balances and transactions to Fife Council and NHS Fife financial reports/ correspondence.</p> <p>Service auditor assurances will be obtained from the auditors of Fife Council and NHS Fife over the completeness, accuracy and allocation of income and expenditure.</p>
<b>Wider dimension risks</b>		
<p><b>2 Financial management and sustainability</b></p> <p>The initial budget for 2017/18 identified a budgeted overspend of £1.8m. The Financial Recovery Plan is designed to address the medium term</p>	<p>Management action continues to be taken to reduce the level of overspend.</p> <p>The integration scheme lays out how overspends will be dealt with at the end of the</p>	<p>Confirmation of funding and balances with host bodies.</p> <p>Consideration of the development of a transformational change programme, and how transformation of services</p>

Audit Risk	Source of assurance	Planned audit work
<p>financial outlook of the IJB, but does not fully address the 2017/18 shortfall.</p> <p>Finance reports are presented to every meeting of the IJB, however the information presented is generally two months old.</p> <p>The IJB has identified an optimal general reserve position of £8 million, although this will not be achieved in the foreseeable future. Currently there are no reserves held.</p> <p>Without appropriate medium term financial plans or sufficient reserves, there is a risk that Fife IJB is not financially sustainable and continues to be dependent on additional year-end funding from NHS Fife and Fife Council.</p>	<p>financial year.</p> <p>Discussions are ongoing with both partners around the funding position.</p>	<p>contributes to the financial sustainability of the IJB.</p> <p>Continuing to monitor the in-year and year end financial position and any further funding decisions</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 Fife Integration Joint Board, and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee
Annual Audit Plan	23 February 2018	2 March 2018
Annual Audit Report including ISA 260 requirements	27 September 2018 (Final)	21 September 2018 (Draft)
Independent Auditor's Report	27 September 2018 (Signed)	21 September 2018 (Proposed)

## Audit fee

7. The agreed audit fee for the 2017/18 audit of Fife Integration Joint Board is £24,000 (2016/17 £17,400). In determining the audit fee we have taken

account of the risk exposure of the IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 29 June 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## **Responsibilities**

### **Fife Integration Joint Board Audit and Risk Committee and Chief Officer**

9. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.
10. The audit of the financial statements does not relieve management or the Audit and Risk Committee as those charged with governance, of their responsibilities.

### **Appointed auditor**

11. Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance), and guided by the auditing profession's ethical guidance.
12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

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

- understanding the business of the IJB and the associated risks which could impact on the financial statements
- obtaining assurances from auditors of partner bodies (Fife Council and NHS Fife) on the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**14.** We will give an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the Code of practice on local authority accounting in the UK 2017-18 (the Code) of the states of affairs of the IJB as at 31 March 2018 and of its surplus/deficit for the year then ended.
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and adapted by the Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**15.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

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

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of IJB gross expenditure (i.e excluding partners' fees and charges) for the year ended 31 March 2018 based on the October 2017 budget information.	£5.5 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of planning materiality.	£3.3 million
<b>Reporting threshold</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.	£55,000



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

#### Timetable

18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Consideration of unaudited financial statements by those charged with governance	29 June 2018
Latest date for final clearance meeting with Chief Finance Officer	07 September 2018
Agreement of audited unsigned annual accounts	14 September 2018
Issue of Draft Annual Audit Report including ISA 260 report to those charged with governance	
Independent auditor's report signed	27 September 2018



## Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function.
20. Internal audit is provided by the Audit and Risk Management Service of Fife Council, in conjunction with Fife, Tayside and Forth Valley Internal Audit Services in their role as Fife Health Board Internal Auditors.

## Adequacy of Internal Audit

21. A formal review of the adequacy of internal audit was completed in early 2018 by the External Auditors for each partner body. Both internal audit functions were found to generally comply with Public Sector Internal Audit Standards and have appropriate documentation standards and reporting procedures in place.

## Areas of Internal Audit reliance

22. There are no planned internal audit reviews that would impact on our financial audit work. In respect of our wider dimension audit responsibilities we plan to consider internal audit work on governance arrangements.

## Audit dimensions

23. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5

#### Audit dimensions



Source: Code of Audit Practice

24. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

## Financial sustainability

25. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium

term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

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

### **Financial management**

**26.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on whether the IJB:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- has taken appropriate measures to assure itself that its financial capacity and skills are appropriate
- has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**27.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the IJB can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision – making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### **Value for money**

**28.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the IJB can provide evidence that it is demonstrating value for money in the use of its resources and 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 Fife Integration Joint Board is Brian Howarth, 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 IJB.

## Quality control

- 31.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.
- 32.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.
- 33.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

## Adding Value

- 34.** Through our audit work we aim to add value to the Audited Body. 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 Audited Body 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.

# Fife Integration Joint Board

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)

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)