

# North Lanarkshire Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for North Lanarkshire 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. 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

2. 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 North Lanarkshire 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>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of significant accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>2 Financial Planning</b></p> <p>Robust financial planning should include a range of scenarios to support the identification and delivery of required savings to ensure longer term financial sustainability. There is a risk that future service delivery is impacted without this longer term perspective being adopted.</p>	<ul style="list-style-type: none"> <li>Monitoring of the required savings and the impact on long term plans.</li> </ul>	<ul style="list-style-type: none"> <li>Review the development of medium / long term financial planning.</li> </ul>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Financial Reporting</b></p> <p>The financial reporting process has been improved in year, however there is still a risk that the new reports may not reflect the actual year end position as this is the first time that the NHS have provided year end outturn estimations.</p>	<ul style="list-style-type: none"> <li>On-going monitoring of the forecast position in the financial reports taken to committee.</li> </ul>	<ul style="list-style-type: none"> <li>Review the year end outturn against the budget reports throughout the year</li> </ul>
<p><b>4 Hospital acute services (set aside)</b></p> <p>The “set aside” budget is the Integration Joint Board’s share of the budget for delegated acute services provided by large hospitals on behalf of the Joint Board. The budget and actual expenditure reported for the “set aside” were equal in 2016/17. The amount set aside, was based on 2014/15 activity levels and provided by NHS National Services Scotland’s Information Services Division.</p> <p>There is a risk that the income and expenditure is misstated due to the lack of current activity information.</p>	<ul style="list-style-type: none"> <li>Ongoing engagement with NHS Lanarkshire to agree an appropriate mechanism, however this will not be in place until 2018/19.</li> </ul>	<ul style="list-style-type: none"> <li>Engage with officers to ensure that a robust mechanism has been developed to quantify North Lanarkshire Integration Joint Board’s set aside income and expenditure.</li> <li>Monitor Scottish Government guidance on the treatment of set aside in the 2017/18 financial statements to establish whether the financial statements are compliant.</li> </ul>

## Reporting arrangements

**3.** 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).

**4.** 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 officers to confirm factual accuracy.

**5.** We will provide an independent auditor’s report to North Lanarkshire Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Accountable Officer and members of the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Performance, Finance and Audit Committee Date
Annual Audit Plan	23 February 2018	7 March 2018
Annual Audit Report	28 September 2018*	27 August 2018
Independent Auditor's Report	28 September 2018*	27 August 2018

\*These dates represent the certification deadline for the 2017/18 IJB accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts.

### Audit fee

6. The proposed audit fee for the 2017/18 audit of North Lanarkshire Integration Joint Board is £24,000 (£17,400 in 2016/17). In determining the audit fee we have taken account of the risk exposure of North Lanarkshire Integration Joint Board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. However the increase from the prior year is not due to specific risks but relates to a central review which recognised that the audit requirements for integration joint boards were higher than initially expected. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 15<sup>th</sup> June 2018.

7. 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

#### Performance, Finance and Audit Committee and Chief Officer

8. 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.

9. The audit of the financial statements does not relieve management or the Integration Joint Board Performance, Finance and Audit Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

10. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the annual accounts. 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

**12.** 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 North Lanarkshire Integration Joint Board and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how North Lanarkshire Integration Joint Board 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.

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

- give a true and fair view of the state of affairs of the North Lanarkshire Integration Joint Board and their income and expenditure;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 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.

## Materiality

**14.** 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. We calculate materiality at different levels as described below. The calculated materiality values for North Lanarkshire Integration Joint Board are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

## 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.	£5.4 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 50% of planning materiality.	£2.7 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 1.8% of planning materiality.	£100,000

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

#### Timetable

16. 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. A timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned meetings of the Performance, Finance and Audit Committee.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	5 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	15 June 2018
Latest date for final clearance meeting with Chief Finance Officer	26 July 2018
Agreement of audited unsigned annual accounts	20 August 2018
Issue of Annual Audit Report including ISA 260 requirements, letter of representation and proposed independent auditor's report to those charged with governance	
Latest date for signing independent auditor's report	28 September 2018

## Internal audit

**17.** 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. Internal audit is provided by a team from North Lanarkshire Council and NHS Lanarkshire on a joint basis.

### Adequacy of Internal Audit

**18.** As part of our planning process we carried out an early assessment of the internal audit function and concluded that it has sound documentation standards and reporting procedures in place.

### Areas of Internal Audit reliance

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

## Audit dimensions

**20.** 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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**21.** The appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

### Financial sustainability

**22.** 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 medium term (two to five years) and longer term (longer than five years). 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

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

- whether North Lanarkshire Integration Joint Board can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

### Governance and transparency

24. 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. These include:

- whether North Lanarkshire Integration Joint 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

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether North Lanarkshire Integration Joint Board can provide evidence that it is demonstrating value for money in the use of its resources and achievement of outcomes.

### Strategic plan for the five year appointment

26. As part of our responsibility to report on the audit dimensions over the current audit appointment the areas of proposed audit work we have identified are outlined in [Exhibit 6](#). This will be subject to annual review.

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## Exhibit 1

### Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability		Financial planning	
Financial management	Financial governance & resource management	Financial reporting	
Governance and transparency	Governance		
Value for money			Operational efficiency

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## Independence and objectivity

**27.** Auditors appointed by the Accounts Commission 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.

**28.** The engagement lead for North Lanarkshire 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 North Lanarkshire Integration Joint Board.

## Quality control

**29.** 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.

**30.** 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 external quality reviews.

**31.** 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

**32.** Through our audit work we aim to add value to the North Lanarkshire Integration Joint Board. 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 Integration Joint Board 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.

# North Lanarkshire Integration Joint Board

## Annual Audit Plan 2017/18

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