

# Inverclyde Integration Joint Board

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Inverclyde Integration Joint Board

February 2017

## 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 including the new approach to Best Value. 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 Inverclyde 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

Audit Risk	Management 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><i>Owing to the nature of this risk, assurances from management are not applicable</i></p>	<p>Detailed testing of journal entries.</p> <p>Service auditor assurances will be obtained from the auditors of Inverclyde Council and NHS Greater Glasgow &amp; Clyde over the completeness, accuracy and allocation of the income and expenditure</p>
<p><b>2 Financial statements preparation</b></p> <p>The 2016/17 financial statements will require income, expenditure and year end balances to be agreed with Inverclyde Council and NHS Greater Glasgow and Clyde. There is a risk that the procedures for agreeing the year end balances are not fully embedded and the financial statements are not delivered to the agreed timescale and format.</p>	<ul style="list-style-type: none"> <li>• Monthly monitoring of financial information.</li> <li>• Officers review guidance issued by the Integrated Resource Advisory Group and the Local Authority (Scotland) Accounts Advisory Committee.</li> <li>• Processes and procedures have been agreed to ensure information is provided in a timely manner to support the delivery of the financial statements.</li> </ul>	<p>Continued engagement with officers prior to the financial statements preparation to ensure the relevant information is disclosed and timetable achieved.</p> <p>Service auditor assurances will be obtained from the auditors of Inverclyde Council and NHS Greater Glasgow &amp; Clyde over the completeness, accuracy and allocation of the income and expenditure.</p>

Audit Risk	Management assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>3 Financial management and budget overspends</b></p> <p>Based on the budget monitoring report for the period to 31 January 2017, there is a projected overspend of £0.256million. There is a risk that an overspend is incurred which has to be distributed to the council and the health board.</p>	<ul style="list-style-type: none"> <li>Ongoing financial monitoring will ensure that all areas are monitored closely.</li> <li>Where an overall overspend is incurred, the Board will be required to come to an agreement with the council and health board to confirm the nature and amount of any additional financial support required.</li> </ul>	<p>Ensure budget monitoring arrangements are robust and accurately reflect the financial position.</p> <p>Confirmation of agreement of funding and balances with host bodies.</p>

## 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 officer(s) to confirm factual accuracy.

**5.** We will provide an independent auditor's report to Inverclyde Integration Joint Board, and Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Accountable 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

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee / Board Date
Annual Audit Report including ISA 260 requirements	September 2017	September 2017
Signed Independent Auditor's Report	September 2017	September 2017

## Audit fee

**6.** The proposed audit fee for the 2016/17 audit of Inverclyde Integration Joint Board is £17,400. In determining the audit fee we have taken account of the risk exposure of Inverclyde Integration Joint Board, 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 by 30 June.

**7.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, 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**

### **Inverclyde Integration Joint Board Audit Committee and Accountable 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 Audit Committee, as those charged with governance, of their responsibilities.

### **Appointed auditor**

**10.** Our responsibilities as independent auditor are established by the 1973 Act for local government, (LG bodies) and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** Auditors in the public sector give an independent opinion on 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

**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 Inverclyde 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 Inverclyde Integration Joint Board will include these in the financial statements
- consideration of assurances obtained from the auditors of Inverclyde Council and NHS Greater Glasgow & Clyde over the completeness, accuracy and allocation of the income and expenditure
- 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 financial position of the Inverclyde Integration Joint Board and their expenditure and income
- have been properly prepared in accordance with the IFRSs as adopted by the European Union and adapted by the 2016/17 Code
- 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.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Inverclyde 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 financial monitoring report for 2016/17.	£1.4 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 75% of planning materiality.	£1.0 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 5% of planning materiality.	£0.07 million

**15.** 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 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. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Chief Financial Officer	25 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	September 2017
Independent auditor's report signed	September 2017

## 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 and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by a team from Council overseen by a Chief Internal Auditor.

### Adequacy of Internal Audit

18. Our assessment of the internal audit function 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). We will consider the work of internal audit throughout the year to inform our audit processes.

## Audit dimensions

19. 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



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

### Financial sustainability

21. 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 following in 2016/17:

- 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

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

- the arrangements in place to ensure systems of internal control are operating effectively
- whether Inverclyde 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

**23.** 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 Inverclyde 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.

## Value for money

**24.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Inverclyde 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

**25.** As part our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

## Exhibit 6

### Strategic plan

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

## Independence and objectivity

**26.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**27.** The engagement lead for Inverclyde Integration Joint Board is Brian Howarth, Assistant Director. Auditing and ethical standards require the appointed auditor Audit Scotland 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 Inverclyde Integration Joint Board.

## Quality control

**28.** 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.

**29.** 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 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.

**30.** 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.

# Inverclyde Integration Joint Board

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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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