

# Scottish Borders Integration Joint Board

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for members of Scottish Borders 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 of Scottish Borders Integration Joint Board (IJB) 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 management and a review of supporting information we have identified the following main risk areas for Scottish Borders IJB. We have categorised these risks into financial risks and wider dimension risks. These risks, and the planned audit work, 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 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 audits of Scottish Borders Council ("the council") and NHS Borders ("the health board") over the completeness, accuracy and allocation of the income and expenditure.</p>
<p><b>2 Financial statements preparation</b></p> <p>Services were delegated to the IJB from 1 April 2016. Therefore 2016/17 will be the first year that delegated services are included in the IJB's financial statements. The financial statements will require income, expenditure and year end balances to be agreed with Scottish Borders Council and NHS Borders. There is a risk that the procedures for agreeing the year end balances are not fully embedded and that the financial statements are not</p>	<p>Officers complying, where appropriate, with guidance from the Integrated Resource Advisory Group (IRAG) and Local Authority (Scotland) Accounts Advisory Committee (LASAAC).</p> <p>Processes and procedures will be agreed to ensure information is provided in a timely manner to support the delivery of the financial statements.</p>	<p>Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</p> <p>Service auditor assurances will be obtained from the audits of Scottish Borders Council and NHS Borders over the completeness, accuracy and allocation of the income and expenditure.</p>

Audit Risk	Management assurance	Planned audit work
delivered to the agreed timescale and in the required format.		
<b>Wider dimension risks</b>		
<p><b>3 Financial sustainability</b></p> <p>The latest financial monitoring report from December 2016 reported a projected outturn of £139.9m against a delegated budget of £139.2m, an overspend of £0.7m. This overspend relates mostly to healthcare services and reflects £4.2m of savings from a recovery plan implemented in year by the health board in response to a direction issued to the health board by the IJB.</p> <p>There is a risk that overspends may require additional payments from the council and health board and that there may be difficulties in producing a balanced outturn in future years.</p>	<p>On-going monitoring of the budget.</p> <p>Due diligence to be completed on the budget setting process.</p>	<p>Confirmation of agreement of funding and balances with host bodies.</p> <p>Review outcome of due diligence exercise.</p> <p>Ensure budget monitoring is robust and accurately reflects the financial position.</p>
<p><b>4 Governance arrangements</b></p> <p>The Chief Officer and Chief Financial Officer are currently interim appointments. These are key governance roles, responsible for the preparation, implementation and reporting on the Strategic Commissioning Plan and for developing and monitoring the budget delegated to the IJB.</p> <p>There is a risk that changes in key staff could impact on the implementation of the Strategic Commissioning Plan, as well as impacting on the effectiveness of monitoring and reporting arrangements.</p>		<p>Provide an update in the annual audit report.</p> <p>Review reporting to IJB throughout year.</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 reports 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 Scottish Borders IJB and the Accounts Commission that the audit of the financial statements has been

completed in accordance with applicable statutory requirements. We will also provide them 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 Date
Annual Audit Report including ISA 260 requirements	15 September 2017	25 September 2017
Signed Independent Auditor's Report	26 September 2017	N/A

### Audit fee

**6.** The fee for the 2016/17 audit of Scottish Borders IJB is £17,470. 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 by 30 June 2017.

**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

#### Audit Committee and Management

**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 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 the IJB and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the IJB will include these in the financial statements
- obtaining service auditor assurances from the audits of Scottish Borders Council and NHS Borders over the completeness, accuracy and allocation of income and expenditure included in the IJB 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 financial position of the IJB and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

## 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 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 gross expenditure for the year ended 31 March 2017 based on the budget for 2016/17.	£1.572 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 70% of planning materiality.	£1.100 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 (rounded).	£0.020 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
Agreement of year end balances with NHS Borders and the council	By 31 May 2017
Consideration of unaudited financial statements by those charged with governance	26 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with IJB Chief Financial Officer	TBC
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	25 September 2017
Independent auditor's report signed	26 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 for the Integration Joint Board is provided by the internal audit service at Scottish Borders Council and is overseen by the Chief Officer Audit & Risk at the council who is the appointed Chief Internal Auditor for the IJB.

### Adequacy of Internal Audit

**18.** Our review of internal audit concluded that the internal audit function operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

### Areas of reliance

**19.** In respect of our wider dimension audit responsibilities we plan to consider areas of internal audit work reported in the Internal Audit Report 2016/17 for the IJB.

## 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




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**21.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will 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 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 longer term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the board can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**23.** 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
- whether the IJB can demonstrate an effective budgetary control system in communicating accurate and timely financial performance
- how the IJB has assured itself that its financial capacity and skills are appropriate
- whether the IJB has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### 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. 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.

**25.** An additional area we will cover in our 2016/17 audit is a follow-up review of the previous Audit Scotland national performance audit:

- The Role of Boards. This report was published in September 2010. The follow up review will assess the governance, decision-making and scrutiny arrangements of the IJB.

### Value for money

**26.** 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
- the IJB can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the IJB can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

## Independence and objectivity

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

**28.** The engagement lead for Scottish Borders IJB is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Borders IJB.

## 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 approved by the Accounts Commission. 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.

**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.

# Scottish Borders Integration Joint Board

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