

Argyll and Bute Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Argyll and Bute Integration Joint Board

22 February 2019

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 sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the Argyll and Bute Integration Joint Board (IJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. We will seek early engagement with the IJB on any critical accounting issues and challenges that may arise as the accounts are prepared and/or during the audit. In so doing, we intend to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at audit committee meetings and a review of supporting information we have identified the following main risk areas for 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 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1. Risk of management override of controls</p> <p>ISA (UK) 240 [<i>The auditor's responsibilities relating to fraud in an audit of financial statements</i>] requires that audit work is planned to consider the risk of fraud, which is presumed to be a risk in any audit. This includes consideration of the risk of management override of controls 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>	<ul style="list-style-type: none"> • Procedures including testing of journals and other adjustments in the preparation of the annual accounts. • An assessment of the methodology applied, and the reasonableness of estimates contained in the financial statements. • Evaluation of financial statement assurances provided by the external auditors of the IJB's partner bodies. • Evaluation of significant transactions that are outside the normal course of business.

 Audit Risk	Source of assurance	Planned audit work
<p>2. Risk of fraud over income and expenditure</p> <p>Under ISA (UK) 240 there is a presumed risk that income may be misstated due to the improper recognition of income. 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.</p> <p>Practice Note 10 issued by the Financial Reporting Council expands this to recognise that most public sector bodies are spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.</p>	<p>The IJB receives its income by way of budget allocations from its partner bodies i.e. Argyll and Bute Council and NHS Highland, then commissions services in line with its Strategic Plan. This limits the scope for manipulation, therefore we have rebutted the presumed risk of improper recognition of income.</p> <p>IJB expenditure is processed through the financial systems of its respective partner bodies, therefore the risk of manipulation is deemed a risk at these bodies rather than at the IJB. We obtain assurances from the external auditors of the partner bodies as to accuracy and completeness of transactions allocated to the IJB, so have rebutted the risk of improper recognition of expenditure within the IJB.</p>	<ul style="list-style-type: none"> • We have rebutted the risks of fraud over income and expenditure. Consequently, we do not plan to undertake any direct audit work in these areas.

Wider dimension issues and risks

3. Financial sustainability

Forecast outturn and budget gap

Financial sustainability continues to be a significant risk to the IJB. The latest forecast outturn position, as at 31 December 2018, was an overspend of £4.398 million. The main reason for the overspend is a forecast shortfall in planned savings for 2018/19 of £7.177 million. It is unlikely, therefore, that the IJB will achieve financial balance by the end of the financial year which will increase the financial pressures for 2018/19 and beyond.

Additionally, there is a risk that the overspend will increase by a further £1.1 million should proposed cost increases in the Service Level Agreement with NHS Greater Glasgow and Clyde be confirmed.

In the mid-range scenario option, the budget gap estimated for the three-

Daily meetings were established on 4 February 2019 to regain grip and control. This includes authorisation on all non-essential expenditure and authorisation of posts. The Council and NHS have been informed that the HSCP is unlikely to achieve financial balance in 2018-19. The Council have also been asked to defer repayment of the 2017-18 overspend by 1 year.

- Review of the IJB's Strategic Plan 2018/19 to 2020/21 and associated finance plan, once released.
- Review the IJBs arrangements for delivering in-year savings
- Assess progress in delivering the three year recovery plan, highlighted as a management action in our 2017/18 Annual Audit report.
- Review of the Quality and Finance Plan.
- Review of the IJB's process for identifying and agreeing savings.

 Audit Risk	Source of assurance	Planned audit work
<p>year period 2019/20 to 2021/22 is £16.891 million with a gap of £6.572 million occurring in 2019/20.</p> <p>Savings targets</p> <p>Latest savings targets are for £10.954 million in 2018/19 and £11.471 million in 2019/20. As noted above, the shortfall for 2018/19 is currently forecast to be £7.177 million, whilst for 2019/20 it is anticipated that only £6.437 million out of the total savings target will be achieved leaving a shortfall of £5.034 million.</p> <p>There is a risk that if effective savings plans are not implemented this will undermine the IJB's ability to maintain financial balance.</p>	<p>A report to the IJB on 30 January 2019 summarised the position with savings targets and the Board approved that a number of the savings options classified as not achievable in full be removed, in order to fully understand the "real" gap facing the partnership in 2019-20. New savings options are currently being developed and will be presented to the Board on 27 March 2019.</p>	
<p>Medium to long-term financial planning</p> <p>The IJB has still to develop a medium to long term financial plan. Until such a plan is in place the IJB will be unable to demonstrate how it will make the required savings and deliver the key priorities within available financial resources.</p>	<p>A medium term financial outlook has now been created and will be updated on a regular basis and reported to each IJB in the future. Due the immediate financial pressures facing the HSCP, the focus has been on the current year and next year and the development of a medium to longer term financial plan will be considered during 2019-20.</p>	

4. Financial management

Budget setting

The IJB has yet to agree its 2018/19 budget. The IJB initially forecast that its expenditure would exceed the offered funding by £12.2m. The plan originally agreed by the IJB identified savings of £10.6m, leaving a £1.6m budget gap, however, this position worsened as described above.

If budgets and savings plans are not agreed on a timely basis, there is a risk that the IJB may damage relations with partner bodies and may not be able to deliver services on a sustainable and planned basis.

Following the budget outlook report and the update on the quality and finance plan to the IJB on 30 January 2019, there is more clarity on the budget gap for next year and officers are currently making good process on identifying and developing savings options to be presented to the Board on 27 March 2019. It is the intention that the Board should be able to agree a balanced budget. Initial proposals have already been presented to the Quality

- Assess the the adequacy of budget monitoring and agreement of funding for 2018/19 as this progresses.
- Assessing progress of the IJB's budget setting process going into 2019/20.
- Review progress in recruiting a full time Chief Finance Officer for the IJB.
- Attend Audit Committee to assess the effectiveness of temporary arrangements.
- Review of Finance papers presented to Audit

 Audit Risk	Source of assurance	Planned audit work
<p>Financial capacity</p> <p>The IJB's Chief Finance Officer (CFO) resigned at the beginning of July 2018, and an external agency worker was brought in to cover the post but subsequently resigned at the end of November 2018. Since then, Argyll and Bute Council's Section 95 Officer has fulfilled the role, on an interim basis, in addition to their council duties. There have been some delays in the ensuing recruitment process so that this arrangement is likely to continue into June 2019.</p> <p>Given that potential candidates may be required to give several months notice to their current employers, there is a risk that;</p> <ul style="list-style-type: none"> • a permanent CFO may not be in post for several months, which could disrupt routine financial monitoring and reporting to the Board. • a lack of financial capacity within the IJB may impact on the quality and timeliness of financial statements and working papers, and lead to misstatements in the annual accounts. 	<p>and Finance Programme Board on 20 February 2019.</p> <p>Financial monitoring and reporting has continued effectively in the period since November 2018, and arrangements are in place for this to continue.</p> <p>Suitable arrangements have also been made for production of the year end financial statements for audit within the necessary timeframe.</p>	<p>Committee and the Board to conclude on their adequacy in enabling members to get a grip on the financial position of the IJB.</p> <ul style="list-style-type: none"> • We will work with the CFO (or equivalent) to understand the challenges in, and progress with, producing a timely and materially correct set of accounts supported by an adequate audit trail and working papers.
<p>5. Workforce Planning</p> <p>The IJB has developed a workforce plan for adult services, however, an organisation wide workforce plan is not yet in place.</p> <p>Without such a workforce plan there is a risk that the IJB will have difficulty in identifying and addressing future staffing and skills needs, which may impact on the achievement of its key objectives.</p>	<p>The second iteration of the Plan for 2019 will include all other HSCP services and also third and voluntary sector activity.</p> <p>West of Scotland Regional Planning Group are being kept informed of progress, and the HSCP is also contributing to the NHS Highland workforce plan. NHS Highland is part of the North of Scotland Regional Planning Group.</p>	<ul style="list-style-type: none"> • Assess progress in developing an IJB wide workforce plan.

Reporting arrangements

- 5.** Audit reporting is the visible output for the annual audit. We will publish all annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest on our website: www.audit-scotland.gov.uk.
- 6.** We will report matters arising from our audit on a timely basis, including action plans for agreed improvements. We will issue draft reports to the relevant officer(s) to confirm factual accuracy.
- 7.** We will provide an independent auditor's report to Argyll and Bute IJB and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer and the Accounts Commission with an annual report on the audit containing our observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2019 (Planned date 1 March 2019)	Audit Committee 8 March 2019
Annual Audit Report	30 September 2019 (Planned date 20 September 2019)	Audit Committee 20 September 2019
Independent Auditor's Report	30 September 2019 (Planned date 20 September)	Audit Committee 20 September 2019

Source: Audit Scotland

Audit fee

8. The agreed fee for the 2018/19 audit of the IJB is £25,500 (£24,000 in 2017/18). In determining the audit fee we have taken account of the risk exposure of the IJB, the planned management assurances in place and the extent of any further assurance we can take from Internal Audit work carried out. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package, by 30 June 2019.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, poor quality working papers or being unable to make use of 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

Audit Committee and Chief Officer

10. 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.

11. The audit of the annual accounts does not relieve management or the Board and the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the financial statements and other information within 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.

14. Our audit team membership has changed significantly since last year. We include full details of the current team in [Appendix 1](#).

Audit scope and timing

Annual accounts

15. The annual accounts, which include the financial statements, will be the foundation and source for most 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 Argyll and Bute 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 the IJB 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.

16. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the 2018/19 Code) of the financial position of the IJB as at 31 March 2019, and its income and expenditure for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 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.

Other information in the annual accounts

17. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

19. 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 opinions in the independent auditor's report.

20. We assess materiality at different levels as described below. The materiality values for Argyll and Bute IJB are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality	Amount
<p>Planning materiality – This is the figure we use in assessing the overall impact of audit adjustments on the financial statements. In our professional judgement, based on the risks facing the audit the IJB, it is appropriate to set planning materiality at 1% of gross expenditure for the year ended 31 March 18, based on the latest audited accounts.</p> <p>We will review this level of materiality in light of any emerging significant risks and the reported outturn position as declared in the 2018/19 financial statements when presented for audit.</p>	£2.65 million
<p>Performance materiality – 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. We have calculated performance materiality at 70% of planning materiality.</p>	£1.86 million
<p>Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.</p>	£0.130 million

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable, which takes account of submission requirements and planned Audit Committee dates, at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by the audit committee	7 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2019
Latest date for final clearance meeting with Chief Finance Officer	By 31 August 2019
Issue of Letter of Representation and proposed independent auditor's report	13 September 2019
Agreement of audited unsigned annual accounts	13 September 2019
Approval of annual accounts by Audit Committee	20 September 2019
Issue of Annual Audit Report to those charged with governance	By 30 Sept. 2019
Independent auditor's report signed	By 30 Sept. 2019

Internal audit

22. Internal audit is provided by Scott Moncrieff. As part of our planning process, we carry out an annual assessment of the internal audit function to ensure that it

operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

Using the work of internal audit

23. Auditing standards require internal and external auditors to work closely together to make the best use of available audit resources. We seek to use the work of internal audit wherever to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively. Specifically, this will include the review of:

- Compliance with the Integration Scheme.

Audit dimensions

24. 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

25. 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

26. 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 eg savings plans.

Financial management

27. 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 the effectiveness of its 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

28. 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 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 decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will 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

30. 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 robust arrangements in place 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.

31. The engagement lead (i.e. appointed auditor) for Argyll and Bute IJB has changed from last year and is now John Cornett, Audit 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 Argyll and Bute IJB.

Quality control

32. 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.

33. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

34. 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.

Appendix 1: The audit team

The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



John Cornett

Audit Director

✉ jcornett@audit-scotland.gov.uk ☎ 0131 625 1771

John has more than 28 years' experience delivering external audit services to Local Government and NHS bodies. For the last 11 years he has been the Engagement Lead for a mixed portfolio of NHS clients in England, including Unitary and Upper Tier authorities as well as NHS Provider Trusts and Clinical Commissioning Groups. Prior to joining Audit Scotland in January, he was a Director and Head of Local Government Audit for the Midlands at KPMG LLP and previously was a District Auditor at the Audit Commission where he headed up the "Trust Practice" business for the East Midlands. John is also a Trustee for a Community Interest Company established by Birmingham City Council to improve the health and wellbeing of less physically active residents across the more deprived areas of the City. He is a Fellow Member of the Chartered Institute of Public Financial Accountants (CIPFA).



Jim Rundell

Senior Audit Manager

✉ jrundell@audit-scotland.gov.uk ☎ 0131 625 1777

Jim will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time. Jim has 34 years' experience of public sector auditing and worked across a range of local government, health and central government audits. Also, he is the quality control manager for our Audit Services Group (ASG) as well as being ASG's risk manager.



David Meechan

Senior Auditor

✉ dmeechan@audit-scotland.gov.uk ☎ 0131 625 1774

David will lead the audit team and will be the main contact for the audit. He joined Audit Scotland in 2002 after almost 25 years in private sector audit, and has since then worked principally in Local Government and Health audit.

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