

Clackmannanshire & Stirling Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

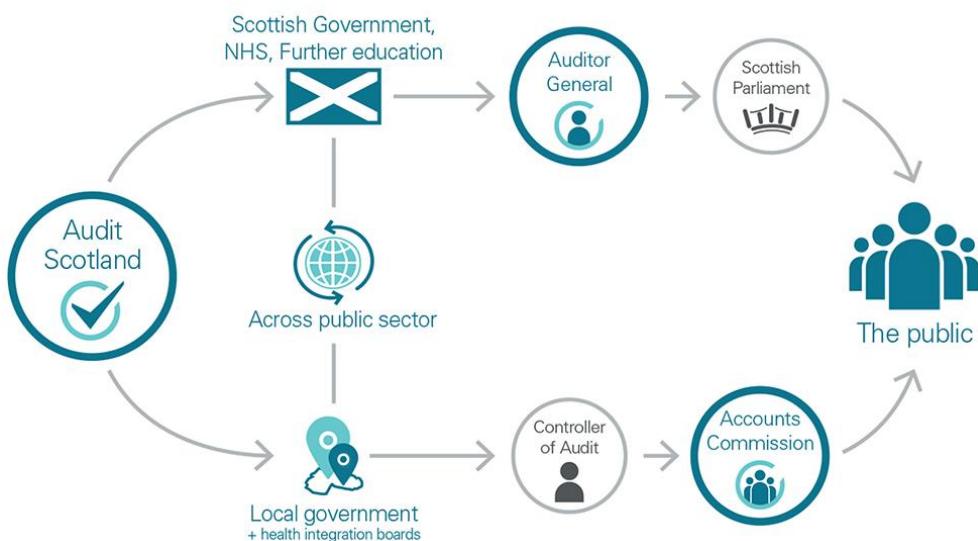
Prepared for Clackmannanshire & Stirling Integration Joint Board

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 Clackmannanshire & Stirling Integration Joint Board (the IJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Clackmannanshire & Stirling Integration Joint Board 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 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		
1 Risk of management override of controls 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 to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
2 Risk of fraud over income and expenditure Under ISA 240 (UK) there is a presumed risk that income may be misstated due to the improper	The IJB receives its income by way of budget allocations from Clackmannanshire Council, Stirling Council	<ul style="list-style-type: none"> • We have rebutted the risks of fraud over income and expenditure, therefore no specific procedures are

 Audit Risk	Source of assurance	Planned audit work
<p>recognition of income. The Financial Reporting Council's Practice Note 10 expands this to include the risk that material misstatements occur by the manipulation of expenditure recognition.</p>	<p>and NHS Forth Valley; and then commissions services in line with its Strategic Plan. As this limits the opportunity for manipulation, we have rebutted the presumed risk of improper recognition of income.</p> <p>IJB expenditure is processed through the financial systems of the partner bodies. The manipulation of expenditure is deemed as a risk at the Councils and Health Board rather than the IJB. We obtain assurances from the auditors of the partner bodies over the accuracy and completeness of transactions coded to IJB account codes. Consequently, we have rebutted the risk of improper recognition of expenditure within the IJB.</p>	<p>required as part of our planned audit work.</p>

Wider dimension issues and risks

3 Financial sustainability

2018/19 budget overspend

During 2018/19, the IJB has faced a number of financial challenges including:

- Based on the latest budget monitoring report for the period to 31st September 2018, the IJB is projecting an overspend of £2.773 million.
- The savings and efficiencies programme for 2018/19 requires savings of £5.674 million to be made in year. Current projections indicate that only 54% of these savings will be delivered.
- Increasing demand for services, particularly within Adult Social Care.

The IJB carried forward £2.359 million of earmarked general fund into 2018/19, and it is expected that only a very small amount of this will be used to fund the projected overspend.

Recovery actions are in place, however, this will not deliver the

Regular financial monitoring is reported to the IJB and discussed with partners.

The IJB plans to update the integration scheme during 2019/20 to make this clearer regarding how overspends should be financed and accounted for in future.

Partners will meet to agree the basis for financing the projected 2018/19 overspend

Due diligence will be completed over the budget setting process. This will build on experience gained in prior years and the need for the IJB to meet savings requirements.

- Review whether budget monitoring is robust and accurately reflects the financial position.
- Confirm and assess the steps taken to identify, agree and report recovery plan savings with partner bodies.
- Consider the extent to which partners agree a basis on which to fund the overspend.
- Review the progress the IJB have made towards agreeing the 2019/20 budget and agreeing the efficiencies required to break even.

 Audit Risk	Source of assurance	Planned audit work
<p>efficiency savings required. Therefore, there is a significant risk that the IJB will not be able to deliver a break-even position in 2018/19. The integration scheme outlines, in broad terms, the procedures that partner bodies should follow in the event of an overspend. As these procedures are subject to agreement, discussions are underway between partners to agree how the projected overspend for 2018/19 shall be funded.</p> <p>2019/20 onwards</p> <p>For 2019/20, the IJB will continue to face a number of financial challenges, including:</p> <ul style="list-style-type: none"> • Early indications have outlined that the IJB will be required to make approximately £4 million of efficiency savings. However, failure to deliver efficiency savings in 2018/19 could impact this figure. • An ageing demographic across the partnership means demand for services is expected to increase. • Continued volatility in prescribing costs. <p>There is a risk that delays in agreeing the 2019/20 budget will impact negatively on the financial management of the IJB and service delivery.</p>		
<p>4 Financial planning – longer term planning</p> <p>Both the integration scheme and the strategic plan state that the IJB should have medium term financial planning. The IJB does not currently have a medium to long term financial strategy or plan in place.</p> <p>There is a risk that the IJB does not have a strategic approach towards how it will finance its longer term service delivery objectives. A longer term financial strategy, supported by the integration scheme, would also be of benefit in helping to address the shorter term financial sustainability issues raised above.</p>	<p>A medium term financial strategy to support delivery of the strategic plan is being developed and will support the Strategic Commissioning Plan 2019 – 2022.</p>	<ul style="list-style-type: none"> • Review the progress the IJB have made towards its medium or long term financial strategy; and confirm that the assumptions are reasonable and consistent with the IJB's strategic plan objectives.

Reporting arrangements

5. 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.

6. 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.

7. We will provide an independent auditor's report to the IJB and Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer, the Auditor General for Scotland and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	20 February 2019	20 February 2019
Annual Audit Report	30 August 2019	11 September 2019 (TBC)
Independent Auditor's Report	11 September 2019	11 September 2019 (TBC)

Source: Audit Scotland

Audit fee

8. The proposed audit fee for the 2018/19 audit of the IJB is £25,000 [£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 level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 31 May 2019.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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

Audit Committee and Accountable 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 Audit Committee as those charged with governance, of their responsibilities.

12. We reported in the prior year a potential failure of governance as a number of Audit Committee meetings have been cancelled due to being inquorate. This is a key operational responsibility and plans are in place to reduce the number of members required to attend meetings, so that meetings will be quorate going forward.

13. To assist meetings in being quorate, the dates of Audit Committee meetings should be agreed as early as possible, in order to allow members time to make suitable arrangements so that they can attend meetings.

Appointed auditor

14. 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.

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

16. Following the retirement of David McConnell in December 2018, the appointed auditor for the IJB from January 2019 is John Cornett. John was previously a District Auditor with the Audit Commission and more recently was KPMG's head of local government audit in the Midlands.

Audit scope and timing

Annual accounts

17. 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 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
- 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.

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

- give a true and fair view of the state of affairs 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.
- have been properly prepared in accordance with the financial reporting framework.



Other information in the annual accounts

19. 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.

20. 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

21. 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.

22. 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	Amount
Planning materiality – 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 19 based on the latest audited accounts for 2018	£1.800 million
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. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£1.080 million
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 1% of planning materiality (rounded).	£0.020 million

Source: 2017/18 Clackmannanshire & Stirling Integration Joint Board Annual Accounts

Timetable

23. 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 at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee date.

Exhibit 4 Annual accounts timetable

Key stage	Date
Agreement of transactions and balances with partner bodies	12 May 2019
Latest submission date of unaudited annual accounts with complete working papers package	31 May 2019
Consideration of unaudited annual accounts by those charged with governance	11 June 2019 (TBC)
Latest date for final clearance meeting with Chief Finance Officer	22 August 2019
Issue of Letter of Representation and proposed independent auditor's report	30 August 2019
Agreement of audited unsigned annual accounts	30 August 2019
Issue of Annual Audit Report to those charged with governance	11 September 2019 (TBC)
Independent auditor's report signed	11 September 2019 (TBC)

Internal audit

24. Internal audit is provided by the partner bodies. Overall planning and reporting of these services, as they impact the IJB, are being provided by the Stirling Council internal audit team until the end of 2018/19.

25. 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

26. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible 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 or effectively.

27. In respect of our wider dimension audit responsibilities we plan to consider the findings of internal audit work including:

- review of the progress in taking forward transformational change in the delivery of integrated services
- review of arrangements to ensure that planning for the implementation of the Carers (Scotland) Act 2016 is adequate and is being properly progressed
- review to ensure that effective arrangements are in place to identify and address issues in relation, but not limited to:
 - clinical and care governance;
 - delayed discharge performance; and,
 - safety and sustainability of the 'out of hours' service

Audit dimensions

28. 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

29. 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

30. 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

31. 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 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

32. 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

33. 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

34. 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 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.

35. The engagement lead (i.e. appointed auditor) for the IJB is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor John Cornett 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 the IJB.

Quality control

36. 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.

37. 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.

38. 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.

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