

# East Lothian Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for the Members of the East Lothian Integration Joint Board  
December 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 including the audit of Best Value.

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 East Lothian 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 doing so, 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 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
<b>Financial statements 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 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>	<p>Testing of journal entries and accruals.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Service auditor assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>The expenditure of the IJB is processed through the financial systems of East Lothian Council and NHS Lothian.</p> <p>There is a risk that non-IJB related expenditure is incorrectly coded to the IJB account codes.</p>	<p>Robust budget monitoring.</p> <p>Assurances to be provided to the IJB by East Lothian Council and NHS Lothian on the completeness and accuracy of transaction coded to IJB account codes.</p>	<p>Service auditor assurances will be obtained from the auditors of East Lothian Council and NHS Lothian over the completeness, accuracy and allocation of the income and expenditure.</p> <p>A sample of audit testing to confirm the accuracy and</p>

 Audit Risk	Source of assurance	Planned audit work
		correct allocation of IJB transactions during 2018/19.
<b>Wider dimension issues and risks</b>		
<p><b>2 Financial management</b></p> <p>There is no obligation set out within the integration scheme for either partner to address any end-year overspend for the IJB. Current forecasts indicate that the IJB will overspend in 2018/19, as it has done in the previous two years before the partners provided additional funds. The partners have indicated that their previous position of funding any end-year overspends is unsustainable.</p> <p>There is a risk that the IJB will be left with an unfunded overspend at year-end with no clear accountability for which party is responsible for addressing this.</p>	<p>In line with the protocol set out in the integration scheme, the partners are currently preparing recovery plans to achieve a break-even position.</p>	<p>Ongoing review of CFO financial updates to the Board.</p> <p>Review of recovery plans put in place by partners for reasonableness.</p>
<p><b>3 Financial sustainability</b></p> <p>The IJB is currently developing a three-year financial plan, recognising that the plan requires further development to consider how resources are to be re-prioritised to address issues of financial sustainability while facilitating a shift to community-based care.</p> <p>There is a risk that the IJB in partnership with NHS Lothian and East Lothian Council may not be able to identify sustainable savings measures or meet cost pressures as they arise. A key element of this is the long term (3-5 year) financial plan to ensure members of the board are aware of the cost pressures facing the IJB which could affect future service delivery.</p>	<p>Financial assurance paper to February 2018 IJB on progress towards financial plans.</p> <p>Financial plan to be in place by March 2019.</p>	<p>Attendance and review of minutes of Board meetings to assess progress towards developing and agreeing a long term financial plan.</p>
<p><b>4 Governance and transparency</b></p> <p>The most recent data from the Quarter 2 financial report forecasts an overspend for 2018/19. To date there has been limited information presented to the Board or Audit and Risk Committee with respect to recovery plans to address this overspend.</p> <p>There is a risk that the IJB is taking decisions on financial sustainability without adequately detailed information to do so.</p>	<p>Financial updates routinely provided to IJB.</p> <p>Financial plan to be in place by March 2019.</p>	<p>Ongoing review of CFO financial updates to the Board for evidence of details of recovery plans.</p>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>5 Governance and transparency</b></p> <p>The Integration Scheme requires the IJB to produce, with the help of its partners, a joint workforce development support plan which is intended to support the IJB's Strategic Plan. The workforce plan is still in development.</p> <p>There is a risk that without a workforce plan, the IJB may not be able to adequately deliver its strategic objectives.</p>	<p>Workforce plan to be in place by March 2019.</p>	<p>Attendance and review of minutes of Board meetings to assess progress towards developing and agreeing a joint workforce plan.</p>
<p><b>6 Governance and transparency</b></p> <p>The IJB recently approved its Risk Management Strategy and Policy and continues to develop its risk management arrangements. The IJB is still considering how best to identify and mitigate those operational risks for the partners that are also strategic risks for the IJB. This could impact on the IJB's ability to deliver its strategic plan.</p> <p>There is a risk that current IJB risk management arrangements may fail to capture and report the operational risks being managed by partners that are also strategic risks to the IJB.</p>	<p>IJB Risk Register reviewed and updated through Audit &amp; Risk Committee.</p>	<p>Ongoing review of IJB Board / Audit and Risk Committee risk discussions and risk registers.</p>
<p><b>7 Value for money</b></p> <p>It is a statutory requirement for the IJB to demonstrate that it is delivering best value by assessing and reporting on economy, efficiency, effectiveness and equality in service provision, in line with the Scottish Government Best Value Framework.</p> <p>There is a risk that the IJB is not complying with best value reporting requirements.</p>	<p>The IJB meetings are formally reported to, and minuted.</p>	<p>Attendance and review of minutes of Board meetings to assess progress towards demonstrating best value.</p> <p>Review of 2018/19 Annual Performance Report for inclusion of best value assessment.</p>

Source: Audit Scotland

## 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](http://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 Chief Officer, Chief Financial Officer (the 'proper officer'), members of the East Lothian IJB Audit and Risk Committee and the 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	Committee Date
Annual Audit Plan	10 January 2019	10 January 2019
Annual Audit Report including ISA 260 requirements	By 30 September 2019	TBC
Independent Auditor's Report	By 30 September 2019	TBC

Source: Audit Scotland

### Audit fee

**8.** The proposed audit fee for the 2018/19 audit of the IJB is £25,000 (2017/18: £24,000). 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 2019.

**9.** 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 out with our planned audit activity.

### Responsibilities

#### Audit and Risk Committee and Chief Financial 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 financial statements does not relieve management or the IJB's Audit and Risk 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 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

**14.** 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.

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

- whether they give a true and fair view of the financial position of the IJB and its expenditure and income;
- 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Other information in the financial statements

**16.** We also review and report on other information published within the financial statements 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.

**17.** 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

**18.** 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.

**19.** 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
<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 2018 based on the latest audited financial statements for 2017/18.	£1.6 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.	£1.2 million
<b>Reporting threshold (i.e. clearly trivial)</b> – 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.	£15,000

Source: Audit Scotland

## Timetable

**20.** To support the efficient use of resources it is critical that the financial statements timetable is agreed with us to produce the unaudited financial statements. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Financial Statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	By 30 June 2019
Latest submission date of unaudited financial statements with complete working papers package	By 30 June 2019
Latest date for final clearance meeting with Chief Financial Officer	TBC
Issue of Letter of Representation and proposed independent auditor's report	By 30 September 2019
Agreement of audited unsigned financial statements	By 30 September 2019
Issue of Annual Audit Report including ISA 260 Report to those charged with governance	By 30 September 2019
Independent auditor's report signed	By 30 September 2019

## Internal audit

**21.** 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 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.

**22.** Internal audit for the IJB is provided by East Lothian Council and is overseen by their Internal Audit Manager who is also the Chief Internal Auditor for the IJB. We will carry out an assessment of the internal audit function at East Lothian Council and conclude on it as part of the East Lothian Council audit planning in January 2019. This will check to ensure that the internal audit function has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

**23.** We take audit assurance from the external auditors of East Lothian Council over the ledger information used to prepare the IJB accounts. We will not place formal reliance on the work of internal audit to reduce our financial statements audit testing, but we will take account of all their work to inform our wider dimension audit responsibilities in the following areas:

- Adult Services – residential care
- Adult Services – payments on schedule
- Adult Services – transport.

### 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 IJB'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

**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 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 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

**29.** 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.

## Other planned audit work

**30.** The following areas may present significant risks to the East Lothian IJB:

- EU withdrawal, specifically looking at implications for workforce, finance, regulation and the supply of drugs and other medical supplies
- The changing landscape for public financial management
- Dependency on key suppliers
- Openness and transparency, reviewing the approach to openness and transparency to ensure it is keeping pace with public expectations and good practice.

**31.** As part of our 2018/19 audit we will be looking at how these areas are being managed by the East Lothian IJB.

## Independence and objectivity

**32.** 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.

**33.** The engagement lead (i.e. appointed auditor) for the East Lothian Integration Joint Board is Gillian Woolman, 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 the East Lothian Integration Joint Board.

## Quality control

**34.** 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.

**35.** 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.

**36.** 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.

# East Lothian Integration Joint Board

## Annual Audit Plan 2018/19

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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