

Fife Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Fife 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 Fife 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 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
Financial statements issues and risks		
<p>1 Risk of management override of controls</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>	<ul style="list-style-type: none"> • Agreement of balances and transactions to Fife Council and NHS Fife financial reports / correspondence. • Service auditor assurances will be obtained from the auditors of Fife Council and NHS Fife over the completeness, accuracy and allocation of income and expenditure. • On-going review of financial position.

	Audit Risk	Source of assurance	Planned audit work
2	<p>Preparation of annual accounts</p> <p>The Chief Finance Officer (CFO) has resigned and leaves post before the financial year end. There are also changes proposed to officers preparing the accounts.</p> <p>As it will be new staff involved in the accounts process this year there is a risk to the delivery/accuracy of financial statements.</p>	<p>An action plan has been drafted to ensure the accounts are prepared on time.</p> <p>Steps are being taken to ensure the new CFO is in post in time to oversee the accounts preparation.</p>	<ul style="list-style-type: none"> • Early engagement with the new CFO and other officers involved in the preparation of the accounts to ensure we are aware of any issues arising.

Wider dimension issues and risks

3	<p>Financial management and sustainability</p> <p>The 2018/19 budget agreed by the IJB in March 2018 was based on a three-year financial strategy agreed with partners with an overall funding gap for the year of £18.2 million. This was to be partially met by planned savings of £12.9 million and it was recognised that the remaining gap of £5.3 million would not be resolved in year. This gap was subsequently reduced to £4.5 million as additional funding was given by Fife Council. This represented an unbalanced budget which was underpinned by partner deficit funding in line with the integration scheme.</p> <p>At November 2018 the IJB is projecting that just under 65% (£8.3 million) of savings will be achieved and this coupled with overspends in year has resulted in a projected year end deficit of £10.9 million, 140% (£6.3 million) above the agreed deficit of £4.5 million.</p> <p>The Senior Leadership Team has to date been unable to prepare an achievable financial recovery plan to address the overspend by 31 March 2019. This has a significant impact on the partner organisations (Fife Council and NHS Fife) as the Integration Scheme currently requires them to deficit fund the IJB.</p> <p>We reported last year that the IJB had not yet achieved financial sustainability, looked unlikely to do so over the medium term and that progress on redesigning health and social care services and transforming how these are</p>	<p>Discussions are ongoing with both partners around the funding position.</p> <p>A turnaround consultant has been working with the IJB to identify areas for improvement. A report has been received and the findings are being considered by officers.</p> <p>The Chief Officer and senior leadership team have been tasked with bringing budgets back in line in year as far as possible.</p>	<ul style="list-style-type: none"> • Review of turnaround consultant's report and findings and actions taken by officers in response. • Consideration of the IJB's budgetary control process • Confirmation of funding and balances with host bodies. • Continuing to monitor the in-year and year end financial position and any further funding decisions • Consideration of the quality of the recovery plan and deliverability of actions proposed. • Consideration of the transformational change programme, and how transformation of services contributes to the financial sustainability of the IJB.
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	Audit Risk	Source of assurance	Planned audit work
	delivered was slower than anticipated. The position has deteriorated further in 2018/19 and there is an increased and significant risk to the IJB's financial sustainability		

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.

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 Fife Integration Joint Board and Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer 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 and Risk Committee Date
Annual Audit Plan	15 March 2019	22 March 2019
Annual Audit Report	25 September 2019 (Final)	20 September 2019 (Draft)
Independent Auditor's Report	25 September 2019 (Signed)	20 September 2019 (Proposed)

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2018/19 audit of Fife Integration Joint Board is £27,000 (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 annual accounts, with a complete working papers package on 24 June 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

Fife Integration Joint Board Audit and Risk 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 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 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.

Audit scope and timing

Annual accounts

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 Integration Joint Board and the associated risks which could impact on the financial statements
- obtaining assurances from auditors of the partner bodies (NHS Fife and Fife Council) on the key systems of internal control, and establishing how weaknesses in these systems could impact on 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:

- give a true and fair view of the state of the affairs of the IJB as at 31 March 2019 and of income and expenditure if the IJB for the year then ended;
- have been properly prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union, as interpreted and adapted by the 2018/19 Code of practice on local authority accounting in the UK;
- have been properly prepared in accordance with 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 annual accounts

16. 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.

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 Fife Integration Joint Board 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 projected gross expenditure for the year ended 31 March 2019 based on October 2018 budget information.	£5.7 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.	£3.4 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 2.7% of planning materiality.	£150,000

Source: Audit Scotland

Timetable

20. 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](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	21 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	24 June 2019
Latest date for final clearance meeting with the Chief Finance Officer	30 August 2019
Agreement of audited unsigned annual accounts Issue of Draft Annual Audit Report including ISA 260 requirements, draft letter of representation and proposed independent auditor's report for Audit & Risk Committee consideration	13 September 2019
Consideration of audited unsigned annual accounts and draft annual audit report by those charged with governance	20 September 2019
Independent auditor's report signed	25 September 2019

Internal audit

21. Internal audit is provided by the Audit and Risk Management Service from Fife Council in conjunction with FTF Audit and Management Services in their role as NHS Fife internal auditors. As part of our planning process the external auditors for each partner body carried out an assessment of the internal audit functions and

concluded that generally they both operate in accordance with Public Sector Internal Audit Standards (PSIAS) and have appropriate documentation standards and reporting procedures in place.

Using the work of internal audit

22. 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 on performance indicators & outcome measures and information governance as part of our wider dimension audit work. There are no planned internal audit reviews that would impact on our financial audit work.

Audit dimensions

23. 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

Financial sustainability

24. 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 Integration Joint Board'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

25. 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 Integration Joint Board:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

26. 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. The knowledge and skills of the board members is key to this process. 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

27. 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 resources, has focus on improvement and that there is a clear link to the outcomes delivered.

Independence and objectivity

28. 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.

29. The engagement lead (i.e. appointed auditor) for Fife Integration Joint Board is Brian Howarth, 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 the IJB.

Quality control

30. 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.

31. 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.

32. 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.

Fife Integration Joint Board

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