

Glasgow City Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Glasgow City 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 Glasgow City 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. 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 course of 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 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>	<p>Detailed testing of journal entries.</p> <p>Assessment of the estimation methodology applied by the IJB and the reasonableness of the estimates contained in the financial statements.</p> <p>Evaluation of the assurances from the IJB's partner bodies' external auditors, who carry out testing of accruals and prepayments.</p>

 Audit Risk	Source of assurance	Planned audit work
		Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income and expenditure</p> <p>Under ISA 240 (UK) there is a presumed risk that income may be misstated due to the improper 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>The IJB receives its income by way of budget allocations from Glasgow City Council (GCC) and NHS Greater Glasgow and Clyde (NHSGGC) 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 GCC and NHSGGC. The manipulation of expenditure is deemed as a risk at the Council and Health Board rather than the IJB. We obtain assurances from the auditors of GCC and NHSGGC 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>	We have rebutted the risks of fraud over income and expenditure, therefore no specific procedures are required as part of our planned audit work.
Wider dimension issues and risks		
<p>3 Financial sustainability</p> <p>The IJB has accumulated reserves of £31m over the last two financial years. A total of £24m is earmarked for specific commitments, leaving £7m contingency.</p> <p>During 2018/19, the IJB has faced increased financial challenges including:</p> <ul style="list-style-type: none"> • a forecast £3m shortfall in the £17m savings target • additional costs of £3.2m arising from the transfer of services from Cordia LLP to the council • increasing service demand. <p>The most recent budget monitoring report projects a net underspend of £2.0m, after taking into account:</p>	<p>Longer term financial plan within the new strategic plan.</p> <p>Existing financial and performance management arrangements.</p> <p>Recent track record of delivering services within budget.</p>	<p>Ongoing review of financial performance and budget reports to assist in our assessment of the adequacy of the IJB's reporting of its budget and financial performance.</p> <p>Evaluation of the IJB's outturn position for 2018/19.</p> <p>Assessment of the IJB's new Strategic Plan, with a particular focus on the adequacy of the medium and longer term financial plans it contains.</p> <p>Evaluation of the IJB's 2019/20 budget setting process.</p>

 Audit Risk	Source of assurance	Planned audit work
<ul style="list-style-type: none"> • a drawdown of £3.2m from contingency to fund the identified Cordia LLP shortfall • additional funding of £1.5m relating to Housing First. <p>Over the medium to longer term the IJB will continue to face significant financial challenges, including:</p> <ul style="list-style-type: none"> • increasing pressure on the budget allocation from GCC – the council have advised of an expected annual savings target of 5% for 2020/21 and 2021/22 • increasing pressure on the budget allocation from NHSGGC • increasing demand for services • ongoing cost pressures resulting from the transfer of services from Cordia LLP to GCC • volatility in prescribing costs • pay inflation. <p>The 2016-19 Strategic Plan does not include a longer term financial plan. We understand that the new three year strategic plan, due to be agreed in March 2019, will include a longer term financial plan.</p> <p>It is important that the IJB’s strategic plan includes a longer term financial plan.</p> <p>There is a risk that the IJB does not have adequate plans in place that considers the medium to longer term financial challenges it faces. Without effective planning, the IJB may be unable to deliver its strategic plan.</p>		

Source: Audit Scotland

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 and will include agreed action plans. We will issue draft management reports to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor’s report to the IJB and the Accounts Commission, setting out our opinions on the annual accounts. We will provide the Accountable Officer 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	31 March 2019	Finance, Audit and Scrutiny Committee 6 March 2019
Annual Audit Report	30 September 2019	Finance, Audit and Scrutiny Committee 4 September 2019 Integration Joint Board 18 September 2019
Independent Auditor's Report	30 September 2019	Finance, Audit and Scrutiny Committee 4 September 2019 Integration Joint Board 18 September 2019

Source: Audit Scotland

Audit fee

8. The 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 Internal Audit's work that we plan to use. 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 or being unable to make use of the 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

Finance, Audit and Scrutiny Committee and Chief Officer: Finance and Resources

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 Finance, Audit and Scrutiny 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 IJB 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.

15. 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

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 the IJB are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

Materiality	Amount
<p>Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. We have set materiality at 1.5% of gross expenditure for the year ended 31 March 2018 based on the latest audited accounts for 2017/18.</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>	£17.160 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. Using our professional judgement, we have calculated performance materiality at 65% of planning materiality.</p>	£11.160 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. We have calculated this at 1% of planning materiality.</p>	£180 thousand

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 which takes account of submission requirements and planned Integration Joint Board and Finance, Audit and Scrutiny Committee dates at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	26 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2019
Latest date for final clearance meeting with the Chief Officer: Finance and Resources	August 2019
Issue of Letter of Representation and proposed independent auditor's report	August 2019
Agreement of audited unsigned annual accounts	September 2019
Annual accounts authorised for issue by the IJB	18 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. Internal audit is provided by the internal auditors of GCC. 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

22. 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, including their reviews of:

- Scheme of Delegation and Board/Committee governance
- participation engagement
- business continuity planning and disaster recovery
- property strategy
- financial governance.

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

24. 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

25. 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

26. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will 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

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

Value for money

28. 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.

Best Value

29. The work planned in the IJB this year will focus on how the IJB is meeting its Best Value duties. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the IJB's self-evaluation processes are in driving improvement across the IJB. We will report the results of this work in the Annual Audit Report.

Independence and objectivity

30. 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.

31. The engagement lead for the IJB has changed from last year and is now John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor, Fiona Kordiak, 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

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.

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