

# Scottish Borders Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

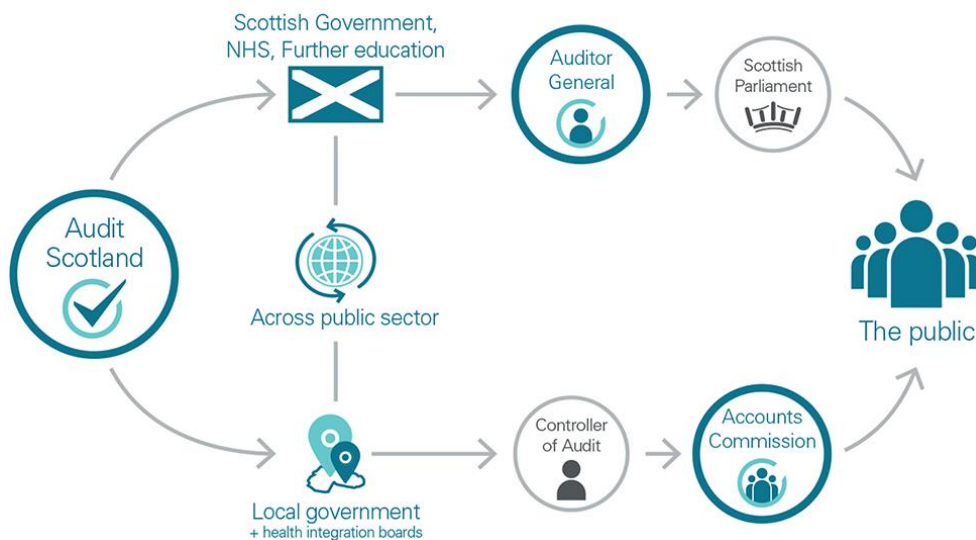
Prepared for Scottish Borders Integration Joint Board

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 of Scottish Borders Health and Social Care Integration Joint Board ("the IJB" or "the Board") 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 new approach to 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 Board 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 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 Scottish Borders Health and Social Care Integration Joint Board. 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](#).
5. The IJB uses the corporate financial systems of Scottish Borders Council and NHS Borders, and relies on the systems of internal control in place at those bodies that support their compliance with policies and procedures. As part of our audit we will seek assurances from the auditors of Scottish Borders Council and NHS Borders over the adequacy of arrangements in place.

## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<b>1 Risk of management override of controls</b>  Although we have not identified any specific risks of management override relating to the IJB, 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 in	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> <li>• Service auditor assurances will be obtained from the audits of Scottish Borders Council ("the council") and NHS Borders ("the health board") over the completeness, accuracy</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	order to change the position disclosed in the financial statements.		and allocation of the income and expenditure.
<b>2</b>	<p><b>Chief Financial Officer</b></p> <p>There is no permanent Chief Financial Officer (CFO) at the IJB, with the current CFO on secondment for one year, until August 2019.</p> <p>There is a risk that financial reporting to the IJB and preparation of the annual accounts could be adversely affected by the departure of the interim CFO.</p>	<p>Ongoing monitoring and reporting of IJB budget to the board during the year.</p> <p>Management assurances that arrangements will be in place in time to ensure business continuity.</p>	<ul style="list-style-type: none"> <li>Ongoing meetings and discussion with officers.</li> </ul>
<b>3</b>	<p><b>Hospital Set Aside Sum</b></p> <p>Arrangements for the sum set aside for hospital acute services under the control of the IJB are not yet operating as required by legislation and statutory guidance; a notional figure is to be agreed and included in the financial statements.</p> <p>There is a risk that the sum recorded as set aside for acute services in the annual accounts does not reflect actual hospital use.</p>	<p>Ongoing discussions with NHS Borders ensuring that set aside is appropriately disclosed in the 2018/19 financial statements.</p>	<ul style="list-style-type: none"> <li>Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</li> </ul>
<b>Wider dimension issues and risks</b>			
<b>4</b>	<p><b>Financial sustainability</b></p> <p>The IJB's financial plan for 2018/19 requires a significant level of efficiency savings, totalling £9.9m, of which £5.2m were unidentified. An update in June 2018 on the delivery of planned savings stated that there was now £6.2m unidentified savings, an increase of £1.0m from the original £5.2m.</p> <p>There is a risk that overspends may require additional payments from Scottish Borders Council and NHS Borders and that there may be difficulties in producing a balanced outturn in future years.</p>	<p>Regular financial monitoring is reported to the IJB.</p> <p>The integration scheme outlines the procedures that partner bodies should follow in the event of an overspend.</p>	<ul style="list-style-type: none"> <li>Attendance at board meetings</li> <li>Monitor of performance against savings plans</li> <li>Consideration of savings plan for 2019/20 and 2020/21.</li> <li>Review whether budget monitoring is adequate and accurately reflects the financial position.</li> <li>Confirm and assess the steps taken to determine and agree future savings requirements with partner bodies.</li> <li>Confirmation of agreement of funding and balances with partners.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>5 Financial management : Budget setting</b></p> <p>Due to the high level of unidentified savings needed, the IJB only formally agreed their budget for 2018/19 in December 2018.</p> <p>There is a risk that the IJB is not able to develop appropriate budgets each year if savings plans are not in place.</p>	<p>Savings plans and budget setting process will be reviewed to ensure it is done in a more timely manner.</p>	<ul style="list-style-type: none"> <li>• Monitor budget setting process for timeliness</li> </ul>
<p><b>6 Governance : Risk Register</b></p> <p>The Board has not regularly had oversight of the IJB strategic risk register. The current IJB strategic risk register was first presented to the audit committee on 17 December 2018 and submitted to the full board on 28 January 2019 for approval.</p> <p>There is a possibility that risk management has not been embedded into the culture of the IJB and that board members are not aware of strategic risks.</p>	<p>IJB Strategic Risk Register will be reviewed by the full Board on a six monthly basis on recommendation by the audit committee.</p>	<ul style="list-style-type: none"> <li>• Monitor the risk management processes in place at the IJB.</li> <li>• Comment on the Annual Audit Report.</li> </ul>
<p><b>7 Governance : Audit Committee</b></p> <p>The annual accounts and our Annual Audit Report (AAR) for 2017/18 were taken to the IJB audit committee in September 2018. The agenda for this meeting was issued with some items still outstanding (including the AAR which was still being cleared with officers). It was also noted that the audited annual accounts were not circulated with the agenda and these were only emailed to members of the committee 15 minutes before the start of the meeting.</p> <p>The meeting was not attended by the Chief Officer, nor the CFO from the council (who was signing the accounts for 2017/18).</p> <p>There is a risk that the opportunity for audit committee members to discharge their responsibilities effectively is compromised.</p>		<ul style="list-style-type: none"> <li>• Continue to monitor the completeness and timeliness of information supplied to Audit Committee members.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

6. 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).

7. 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.
8. We will provide an independent auditor's report to Scottish Borders Integration Joint Board and Accounts Commission setting out our opinions on the annual accounts. We will provide them with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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## Exhibit 2

### 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Report (including proposed Independent Auditor's Report)	2 August 2019	12 August 2019
Signed Independent Auditor's Report	27 August 2019	N/A

Source: Audit Scotland

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### Audit fee

9. The agreed audit fee for the 2018/19 audit of Scottish Borders Integration Joint Board is £25,000 (2017/18: £24,000). In determining the audit fee we have taken account of the risk exposure of Scottish Borders Scottish Borders Integration Joint Board, 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 on 28 June.
10. 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 outwith our planned audit activity.

## Responsibilities

### Audit Committee and Management

11. 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.
12. The audit of the financial statements does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

### Appointed auditor

13. 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.
14. 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 four audit dimensions that frame the wider scope of public sector audit requirements, as shown in [Exhibit 5](#). In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

- 15.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:
- understanding the business of Scottish Borders Integration Joint Board 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 Scottish Borders Integration Joint Board will include these in the financial statements
  - assessing the risks of material misstatement in the financial statements
  - determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.
- 16.** We will give an opinion on whether the financial statements:
- give a true and fair view of the of the state of affairs of the IJB as at 31 March 2019 and of the income and expenditure of the IJB for the year then ended;
  - have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Other information in the annual accounts

- 17.** We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.
- 18.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

- 19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.
- 20.** We calculate materiality at different levels as described below. The calculated materiality values for Scottish Borders Integration Joint Board 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 1.5% of gross expenditure for the year ended 31 March 2019 based on the latest budget for 2018/19.	£2.55 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 70% of planning materiality.	£1.79 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 2% of planning materiality.	£0.05 million



Source: Audit Scotland

## Timetable

21. To support the efficient use of resources it is critical that the financial statements 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 dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Agreement of year end balances with NHS Borders and Scottish Borders Council	31 May 2019
Consideration of unaudited financial statements by the IJB Board	24 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	28 June 2019
Latest date for final clearance meeting with Chief Financial Officer	26 July 2019
Issue of Annual Audit Report including ISA 260 requirements to those charged with governance	12 August 2019
Approval of audited unsigned annual accounts by the IJB Board	26 August 2019
Independent auditor's report signed	27 August 2019

## Internal audit

22. Internal audit is provided by the internal audit service at Scottish Borders Council and is overseen by the Chief Officer Audit & Risk at the council who is the appointed Chief Internal Auditor for the IJB. 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). Our assessment concluded that the internal audit function operates in

accordance with the PSIAS and has sound documentation standards and reporting procedures in place

### Using the work of internal audit

- 23.** 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 and to ensure the total resource is used efficiently or effectively.
- 24.** In respect of our wider dimension audit responsibilities we plan to consider areas of internal audit work reported in the Internal Audit Annual Assurance Report 2018/19 for the IJB.

### Audit dimensions

- 25.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

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- 26.** 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

- 27.** 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 short term (up to one year), 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
  - whether the IJB can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

## Financial management

**28.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

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

## Governance and transparency

**29.** 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

**30.** 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.

## Best Value

**31.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016. As part of this approach a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in a five-year period.

**32.** The BVAR for Scottish Borders Council will be reported in October 2019. As part of this audit we will be considering the effectiveness of partnership working arrangements, including arrangements with the IJB.

## Independence and objectivity

**33.** 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.

34. The engagement lead for Scottish Borders IJB is Gillian Wooman, 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 Scottish Borders Integration Joint Board.

## Quality control

35. 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.
36. 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.
37. 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.

# Scottish Borders 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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