

South Lanarkshire Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for by South Lanarkshire 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

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.

Contents

Risks and planned work	4
Audit scope and timing	8

Risks and planned work

Introduction

1. This audit plan provides an overview of the planned scope and timing of our audit of the South Lanarkshire Integration Joint Board for 2018/19. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the Code of Audit Practice issued by Audit Scotland and endorsed by the Accounts Commission.
2. We seek to add value to the Joint Board by identifying areas of improvement and recommending and encouraging good practice on financial sustainability, governance, risk management and performance. In so doing, we aim to help the board promote improved standards, better management and decision making, and more effective use of resources.
3. The plan sets out the audit work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit. The wider scope of public audit includes assessing arrangements for financial sustainability, governance and transparency, and value for money. We make a public report of conclusions on these matters in our Annual Audit Report to the Joint Board and the Controller of Audit.

Audit risks

4. Based on our discussions with staff, attendance at board and committee meetings and a review of supporting information we have identified the main risk areas for the Joint Board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [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.</p>	<p>In view of the nature of this risk, assurances from management are not appropriate.</p>	<ul style="list-style-type: none"> Assurances will be obtained from the auditors of NHS Lanarkshire and South Lanarkshire Council over the completeness, accuracy and allocation of the income and expenditure.
<p>2 Risk of fraud/error over expenditure</p> <p>The expenditure of the IJB is processed through the financial systems of NHS Lanarkshire and South Lanarkshire Council. There is a risk that non-IJB related</p>	<p>In view of the nature of this risk, assurances from management are not appropriate.</p>	<ul style="list-style-type: none"> Assurances will be obtained from the auditors of NHS Lanarkshire and South Lanarkshire Council over the accuracy, completeness and appropriate allocation of the IJB ledger entries.

	Audit Risk	Source of assurance	Planned audit work
	<p>expenditure is incorrectly charged to the IJB account codes.</p>		
3	<p>Hospital acute services (set aside)</p> <p>The “set aside” budget is the Integration Joint Board’s share of the budget for delegated acute services provided by large hospitals on behalf of the Joint Board.</p> <p>The budget and actual expenditure reported for the “set aside” were equal in 2017/18: the amount set aside, was based on 2015/16 activity levels as provided by NHS National Services Scotland’s Information Services Division.</p> <p>Risk</p> <p>There is a risk that the income and expenditure of the Joint Board is misstated due to the lack of current activity information.</p>	<p>The Joint Board has been working with NHS Lanarkshire to agree an appropriate mechanism for determining set-aside for 2018/19.</p>	<ul style="list-style-type: none"> Engage with officers to ensure that a robust mechanism has been developed to quantify South Lanarkshire Integration Joint Board’s set aside income and expenditure. Monitor Scottish Government guidance on the treatment of set aside in the 2018/19 financial statements to establish whether the financial statements are compliant.
4	<p>Accounting for hosted services</p> <p>The South Lanarkshire Integration Scheme is not explicit on the arrangements for over or underspends in respect of hosted services. The Joint Board should ensure that there is a formal minute of agreement with North Lanarkshire Integration Joint Board and NHS Lanarkshire around how under and overspends on hosted services will be managed.</p> <p>Risk</p> <p>Over/underspends on hosted services become an area of dispute.</p>	<p>A formal minute of agreement with North Lanarkshire Integration Joint Board and NHS Lanarkshire will be developed.</p> <p>Work is currently ongoing to review how hosted services operate which includes improving the processes to:</p> <ul style="list-style-type: none"> agree service priorities identify savings and confirm financial investment to fund service expansion. 	<ul style="list-style-type: none"> Monitor progress in establishing a formal minute of agreement which sets out the arrangements in place for managing underspends on hosted services.
Wider dimension issues and risks			
5	<p>Budget Monitoring</p> <p>Budget monitoring reports do not clearly map out changes to the original budget.</p> <p>Risk</p> <p>There is a risk of a lack of transparency over budgets if members are not alerted to, and aware of the reasons for budget movements.</p>	<p>The Chief Financial Officer has received reconciliation reports which will allow more transparent reporting of budget movements. Further work on this is currently being progressed to finalise an agreed reporting framework. The Chief Financial Officer will enhance budget monitoring reports to include details of changes to budget.</p>	<ul style="list-style-type: none"> Monitor progress in enhancing budget monitoring reports to ensure budget variations are transparent.

 Audit Risk	Source of assurance	Planned audit work
<p>6 Medium to long-term financial planning</p> <p>The Joint Board does not have a medium to long-term financial plan in place.</p> <p>Risk</p> <p>There is a risk that the Joint Board is not clearly sighted on its future financial challenges and opportunities which could be detrimental to effective strategic planning.</p>	<p>The Chief Financial Officer is currently working with the partner bodies to develop a meaningful medium to long-term plan.</p> <p>The Chief Financial Officer plans to take a medium to long term financial plan to the Joint Board as part of the budget-setting process for 2019/20.</p>	<ul style="list-style-type: none"> Monitor progress in developing a medium to long-term financial plan and report as appropriate in the Annual Audit Report.
<p>7 Impact of EU withdrawal</p> <p>The Joint Board faces uncertainty around its funding and capacity for service delivery beyond the 29 March 2019 when the United Kingdom plans to leave the European Union. Work is ongoing with the Scottish Government to ensure that the Joint Board, through its partners, is adequately prepared but there is still significant uncertainty around the impact of EU withdrawal.</p> <p>Risk</p> <p>There is a risk that the EU withdrawal impacts on the partners' ability to deliver services and fulfil the commissioning requirements of the IJB as set out in the directions for 2019/2020.</p>	<p>The Joint Board will work with the partner organisations to ensure that all necessary and appropriate steps are taken to minimise, where possible, the uncertainties around EU withdrawal.</p>	<ul style="list-style-type: none"> Monitor the action taken to minimise any risks arising from EU withdrawal.
<p>8 Demonstrating the delivery of Best Value</p> <p>The statutory duty of Best Value applies to all public bodies in Scotland.</p> <p>Risk</p> <p>There is a risk that, the Joint Board is unable to demonstrate that it is meeting its statutory duty to deliver Best Value.</p>	<p>The Chief Financial Officer intends to undertake an exercise to document the arrangements in place to demonstrate that best value is being achieved.</p>	<ul style="list-style-type: none"> Monitor progress in developing a mechanism to demonstrate that the Joint Board is achieving Best Value. Review the output from the Chief Financial Officer's exercise to ensure that the Joint Board is meeting its statutory obligation to deliver Best Value.

Source: Audit Scotland

Reporting arrangements

5. The outputs set out in [exhibit 3](#), and any other outputs on matters of public interest will be published on Audit Scotland's 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 reports will be issued to the relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to South Lanarkshire Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Joint Board and the Controller of Audit with an Annual Audit Report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	19 February 2019	26 February 2019
Annual Audit Report	28 September 2019*	10 September 2019
Independent Auditor's Report	28 September 2019*	10 September 2019

*These dates represent the certification deadline for the 2018/19 IJB accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts.

Source: Audit Scotland

Audit fee

8. The agreed audit fee for the 2018/19 audit of South Lanarkshire Integration Joint Board is £25,000 (£24,000 2017/18). In determining the audit fee, we have taken account of the risk exposure of South Lanarkshire 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 annual accounts, with a complete working papers package on 17 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 outwith our planned audit activity.

Responsibilities

South Lanarkshire Integration Joint Board 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 South Lanarkshire Integration Joint Board, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, and the Code of Audit Practice and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the annual accounts. We aim to support improvement and accountability by reviewing and reporting on arrangements to manage performance and use of resources.

Audit scope and timing

Annual accounts

14. The statutory financial statements audit will be the foundation and source for much 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 South Lanarkshire Integration Joint Board and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how South Lanarkshire 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.

15. We will give an opinion on whether:

- the financial statements give a true and fair view of the state of affairs of the Joint Board and the income and expenditure for the year;
- the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as interpreted and adapted by the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom;
- the annual accounts 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 annual accounts

16. We also review and report on the management commentary, remuneration report and governance statement. We give an opinion on whether these have been prepared in accordance with the appropriate regulations and guidance. We also read and consider any other information in the annual accounts and report any material inconsistencies.

Materiality

17. We apply the concept of materiality in planning and performing our audit. Materiality defines the maximum error that we are prepared to accept and still conclude that the financial statements present a true and fair view. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out in [exhibit 3](#).

Exhibit 3

Materiality levels

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 budgeted gross expenditure for the year ended 31 March 2019 based on the latest budget monitoring information for 2018/19.	£5.167 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.	£3.100 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% of planning materiality (rounded up to the nearest £50,000).	£100,000

Source: Audit Scotland

Timetable

18. An agreed timetable is included at [exhibit 4](#), which takes into account submission requirements and planned Performance and Audit Committee dates.

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	25 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	17 June 2019
Latest date for final clearance meeting with Chief Financial Officer	25 July 2019
Issue of Letter of Representation and proposed independent auditor's report	3 September 2019
Agreement of audited unsigned annual accounts	10 September 2019
Issue of Annual Audit Report to those charged with governance	10 September 2019
Independent auditor's report signed	10 September 2019

Internal audit

19. 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 and as part of our planning process we carry out an assessment of the internal audit function at audited bodies.

Adequacy of Internal Audit

20. The Joint Board's internal audit function is provided jointly by the internal audit teams of NHS Lanarkshire and South Lanarkshire Council. A formal review of the adequacy of internal audit was completed for the Integration Joint Board in January 2019. In addition, the external auditors of the partners have completed assessments of their respective bodies. All assessments found that internal audit services operate in accordance with PSIAS and have sound documentation standards and reporting procedures in place.

Audit dimensions

21. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

22. We consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit of the financial statements. We also comment on the IJB's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2018/19:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term, including the potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal.
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

Financial management

23. 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:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance

- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for internal control and the prevention and detection of fraud and corruption have been established.
- the arrangements in place to receive assurances that systems of internal control are operating effectively

Governance and transparency

24. 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 assess:

- 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.
- whether governance arrangements are appropriate and operating effectively.
- the quality and timeliness of financial/performance reporting

Value for money

25. Value for money refers to using resources effectively and continually improving services. We will assess whether the Integration Joint Board 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

26. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing 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.

27. The engagement lead (i.e. appointed auditor) for South Lanarkshire Integration Joint Board is Fiona Mitchell-Knight, 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 South Lanarkshire Integration Joint Board.

Quality control

28. 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 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.

29. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Audit Scotland’s Code of Audit Practice. 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 have been commissioned to carry out external quality reviews.

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