

Aberdeenshire Integration Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Aberdeenshire Integration Joint Board

26 February 2020

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 which is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and guidance on planning the audit. This plan sets out the 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.

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 Aberdeenshire Integration Joint Board (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 Aberdeenshire Integration Joint 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 significant risks for Aberdeenshire Integration Joint Board. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards (IAS 240) require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit.</p> <p>This includes the risk of management override of controls that results in fraudulent financial statements or to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Evaluate external auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian). Assurances will include: <ul style="list-style-type: none"> detailed testing of journal entries review of accounting estimates focused testing of accruals and prepayments.

	Audit Risk	Source of assurance	Planned audit work
2	<p>Risk of incompleteness of expenditure and income</p> <p>The transactions for the IJB are recorded through the partner ledgers of NHS Grampian and Aberdeenshire Council. If robust processes are not in place there is a risk that expenditure and income is miscoded and IJB accounts are under/over-stated.</p>	<ul style="list-style-type: none"> Assurances from partner bodies on the completeness and accuracy of data Chief Finance Officer is also a senior finance officer in a partner body Regular/robust budget monitoring. 	<ul style="list-style-type: none"> Evaluate external auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian) with regard to expenditure and income incurred, coding structures and completeness and accuracy of data.
Wider dimension risks			
3	<p>Financial capacity</p> <p>The council's Finance Business Partner for social care (senior accountant), who is the IJB's Chief Finance Officer's key point of contact for social care financial information, will leave the council on 30 June 2020. (Note – the officer will be involved in the preparation of the IJB's 2019/20 unaudited accounts but will leave before the audit of the accounts commences.)</p> <p>This is a significant loss of social care financial management experience and with alternative arrangements yet to be agreed between the council and the IJB, there is a risk that the Chief Finance Officer has insufficient support going forward to deliver effective financial management.</p>	<ul style="list-style-type: none"> Outcome of discussions between council Head of Finance and IJB Chief Finance Officer. 	<ul style="list-style-type: none"> Review the robustness of alternative arrangements yet to be agreed.
4	<p>Financial management</p> <p>The IJB is working with partners to manage an estimated budget overspend of £5m. This is in line with the previous year and partners are already anticipating the need to make an additional contribution.</p> <p>Owing to the demand led nature of several budgets, there is a risk that the overspend could be higher so increasing the pressure on partners.</p>	<ul style="list-style-type: none"> Regular budget monitoring. Finance reports are regularly provided to the board Involvement of the Board and management in budget monitoring Budget settlement and split regarding the overspend to be provided to the board. 	<ul style="list-style-type: none"> Confirmation of funding agreements, payments made, and any balance left. Evaluate partners' external auditor assurances around completeness of income and expenditure.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 as the IJB receives its income by way of budget allocations from Aberdeenshire Council and NHS Grampian and then commissions services in line with its Integration Scheme. This limits the opportunity for manipulation.

6. In line with Practice Note 10, as most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2019/20 because the IJB's expenditure is processed through the financial systems of Aberdeenshire Council and NHS Grampian i.e. the partner bodies. The manipulation of expenditure is therefore deemed as a risk of the partner bodies rather than the IJB. As part of the audit, we obtain assurances from the external auditors of the partner bodies over the accuracy and completeness of the transactions coded to IJB account codes.

Reporting arrangements

7. 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.

8. 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. We will also undertake follow up audit activity to report progress on our recommendations from previous years.

9. We will provide an independent auditor's report to Aberdeenshire Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer, the IJB Audit Committee and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Date to be considered by Audit Committee
Annual Audit Report including ISA 260 requirements	19 August 2020	26 August 2020
Independent Auditor's Report	To be signed by 31 August 2020	The audited accounts are scheduled to be approved by the Audit Committee on 26 August 2020

Source: Audit Scotland

Audit fee

10. The proposed audit fee for the 2019/20 audit of Aberdeenshire IJB is £26,560 (2018/19 £25,000). In determining the audit fee we have taken account of the risk exposure of Aberdeenshire 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, by 26 June 2020.

11. 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

Audit Committee and Chief Finance Officer

12. 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.

13. The audit of the annual accounts does not relieve management or the IJB Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

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

15. 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

Financial Statements

16. The statutory 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.

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

- give a true and fair view in accordance with applicable law and the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom (the 2019/20 Code) of the state of the affairs of the IJB as at 31 March 2020 and of the income and expenditure of the board for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2019/20 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.

Statutory other information in the annual accounts

18. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. In our independent auditor's report, we give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks.

19. We also review the content of the annual report for consistency with the financial statements and with our accumulated audit knowledge and report any significant discrepancies.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

20. 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. We calculate materiality at different levels as described below. The calculated materiality values for Aberdeenshire Integration Joint Board are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess 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 audited accounts.	£5.0m
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 75% of planning materiality.	£3.8m
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements above the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£250,000

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. [Exhibit 4](#) includes an agreed timetable.

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Agreement of balances for NHS Grampian's group accounts consolidation	30 April 2020
Consideration of unaudited annual accounts by those charged with governance	24 June 2020
Latest submission date for unaudited annual accounts with complete working papers package	26 June 2020
Latest date for final clearance meeting with Chief Finance Officer	3 August 2020
Agreement of audited unsigned annual accounts	7 August 2020
Issue of Annual Audit Report and audited accounts to the audit committee (those charged with governance) in advance of its meeting on 26 August 2020	19 August 2020
Independent auditor's report signed	By 31 August 2020

External auditor assurances for health and social care systems and functions provided by partner bodies

22. In order to be efficient and avoid duplication of effort, we obtain financial assurances from external auditors in respect of health and social care services delivered by partners. In this case, assurances are obtained from the external auditors of Aberdeenshire Council and NHS Grampian and cover a range of areas including the operation of key financial controls and internal audit, verification of samples of transactions and other functions carried out by the partners.

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 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. The IJB internal audit service is provided by David Hughes, Chief Internal Auditor at Aberdeenshire Council. PricewaterhouseCoopers provide internal audit services to NHS Grampian.

Adequacy of internal audit

24. We are also the external auditors for Aberdeenshire Council and NHS Grampian and, consequently, we have taken assurance from our reviews of internal audit carried out in connection with our audits of the council and the NHS board respectively. With regard to each body, we concluded that the internal audit function operates in accordance with Public Sector Internal Audit Standards which enables us to place reliance on their work.

25. Sharing arrangements have been put in place between the internal auditors of the IJB, Aberdeenshire Council and NHS Grampian. Where there is a direct relationship between the internal audit work carried out in the partner bodies and the IJB, the relevant report will be shared with the IJB audit committee for information. Where we intend to place reliance on such internal audit activity, assurance will be sought from the partner external auditor.

26. From our review of internal audit plans, we intend to place formal reliance on Aberdeenshire Council's internal audit reviews of self-directed support payments and home care services by obtaining assurances from partner external auditors. As part of our wider scope responsibilities, we will also consider the IJB internal auditor's work in the following areas:

- Partnership governance – to provide assurance that partners have appropriate arrangements in place to work effectively together
- Compliance with data legislation – to provide assurance that the IJB has implemented, and complies with, appropriate arrangements for data security.

Audit dimensions

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

28. 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.

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

29.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 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
- appropriateness and effectiveness of arrangements in place to address any identified funding gaps

Financial management

30.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 Aberdeenshire IJB working in partnership with its partner bodies:

- 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 assured itself that its financial capacity and skills are appropriate
- has appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

31. 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 Aberdeenshire IJB:

- can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- has effective scrutiny, challenge and transparency on decision-making and finance and performance reports
- has quality and timely financial and performance reporting
- has robust arrangements in place to support the annual governance statement.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the IJB, working with its partners, can demonstrate:

- value for money in the use of its resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving and there is sufficient focus on improvement and the pace of it.

Best Value

33. As local government bodies, Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on these arrangements.

Independence and objectivity

34. Auditors appointed by the Accounts Commission 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.

35. The engagement lead (i.e. appointed auditor) for Aberdeenshire IJB 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 Aberdeenshire Integration Joint Board.

Quality control

36. 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.

37. 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 Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and has commissioned the Institute of Chartered Accountants of Scotland to carry out external quality reviews.

38. Each year, Audit Scotland publishes an Audit Quality report which summaries the results of the above quality activity carried out on audit work delivered by Audit Scotland and the appointed firms.

39. 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.

Audit Team

40. The local audit team will be led by Anne MacDonald, Senior Audit Manager, who will be responsible for day to day management of the audit will be your primary contact. Details of the team's experience and skills are provided in [Exhibit 6](#).

Exhibit 6

Core Audit Team

Name	Experience
Gillian Woolman FCA CPFA Audit Director (<i>and certifying auditor</i>)	<ul style="list-style-type: none"> Gillian has worked in the public and private sector, internal and external audit, in the UK and overseas. She is the lead Audit Director for equality and diversity matters at Audit Scotland and holds a mixed portfolio of audits. She is currently chair of the regional strategic board for the Institute of Chartered Accountants in England and Wales and Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).
Anne MacDonald CA Senior Audit Manager	<ul style="list-style-type: none"> Anne has many years of public sector experience, mainly in local government, covering both financial audit and best value audit. She has a lead role for local government matters in Audit Scotland which includes reporting emerging issues to the Accounts Commission.
Mark Johnstone CPFA Senior Auditor	<ul style="list-style-type: none"> Mark has over 20 years public sector audit experience, across the local government, central government, health and further education sectors. Since 2017/18, he has contributed to the Accounts Commission's Annual Overview of Local Government.
Adebayo Ladejobi CA Auditor	<ul style="list-style-type: none"> Adebayo joined Audit Scotland's graduate training programme in 2015 and qualified as a Chartered Accountant (CA) with the Institute of Chartered Accountants of Scotland in 2019. He had previously qualified as a CA in Nigeria.

Aberdeenshire Integration Joint Board

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