

# Argyll and Bute Integration Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Argyll and Bute Integration Joint Board

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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 the Argyll and Bute 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. For example, in the current year, we have provided examples of good practice relating to the effectiveness of an audit committee and guidance on the production of the management commentary. In so doing, we intend to help 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 significant risks for the IJB. 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
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards 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. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journals including authorisation and approval.</li> <li>Review of accounting estimates</li> <li>Focussed testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> <li>Substantive testing of cut-off procedures at the year-end to confirm that income and expenditure are accounted for in the correct financial year.</li> </ul>

**Audit Risk****Source of assurance****Planned audit work****Wider dimension risks****2 Financial sustainability****Financial Position**

Financial sustainability is a continued risk for the IJB. The forecast outturn position (as at September 2019) for 2019/20 is a forecast overspend of **£1.989m**. This consists of a Social Work overspend of **£1.671m** and a Health overspend of **£318k**. It is therefore unlikely that the IJB will achieve financial balance for the financial year.

In the mid-range scenario, the projected budget gap for the three-year period from 2020/21 to 2022/23 is **£21.063m** with a gap of **£8.837m** occurring in 2020/21.

Additionally:

- The budget gap figures above do not include the £1.5m Service Level Agreement (SLA) dispute with NHS Greater Glasgow & Clyde (NHSGGC)
- There is a risk that if effective savings plans are not implemented this will undermine the IJB's ability to maintain financial balance

**Long-term financial planning**

The IJB has in place a short- and medium-term financial outlook outlining the challenges faced over the next three years – these are aligned to the Strategic Plan 2019/20 – 2021/22. However, there is still a lack of long-term financial planning.

- A Financial Recovery Plan is in place which is monitored closely by the Finance & Policy Committee and reported to the Board.
  - As part of the continued Grip and Control measures, the Strategic Leadership Team meet on a weekly basis to improve the financial position over the coming months. Also, all proposed spend on supplies and services and all requests to fill staff vacancies are reviewed to ensure that only essential spend is incurred and wastage is removed.
  - Discussions are ongoing between the IJB and NHSGGC regarding the SLA.
  - A savings plan is in place which is monitored by the Board. As at September 2019, £4.949m of the 2019/20 savings target of £10.523m was achieved (47%). At September 2019, the IJB was forecast to deliver £7.100m worth of savings (68%) for the year.
  - Medium term financial planning arrangements are based on a three-year budget outlook compiled using three different scenarios - best case, mid-range and worst case.
  - Longer-term financial planning is aspirational at this point in time and is unlikely to change whilst funding is based on single year settlements.
- Review and assess progress in delivering Financial Recovery Plan.
  - Assess the impact of grip and control measures in improving the financial position.
  - Monitor savings plans to assess progress in delivering savings.
  - Review progress made in discussions between the IJB and NHSGGC and assess the impact on the IJB's financial position.
  - Continue to monitor the position for any changes or new developments.

**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 because the source of income for the IJB is straightforward – the only source of income is from the Partner bodies. In accordance with paragraph A30 of ISA 240, the risk of fraud over income can therefore be rebutted. Budgets are reported and agreed publicly – therefore, there is limited risk of fraud over revenue.

**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, as is the case with income, expenditure for the IJB is relatively straightforward. Expenditure takes the form of commissioning services from the Partner bodies. Details of actual expenditure comes from the two Partner bodies and there is limited scope for the IJB to manipulate this.

## 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](http://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 management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**9.** We will provide an independent auditor's report to the IJB and Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and Accounts Commission 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 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	11 February 2020	18 February 2020
Independent Auditor's Report (proposed)	08 September 2020	15 September 2020
Annual Audit Report	08 September 2020	15 September 2020

Source: Audit Scotland

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## Audit fee

**10.** The audit fee for the 2019/20 audit of the IJB is £26,560 (£25,500 in 2018/19). In determining the audit fee, we have taken account of the risk exposure of the IJB, the planned management assurances in place and the extent to which we can use the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package on 23<sup>rd</sup> June 2020.

**11.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual accounts, 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 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 Audit and Risk Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**14.** 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.

**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 and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**16.** 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
- 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 the state of affairs of the IJB as 31 March 2020 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 2019/20 Code; and
- have been properly 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. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**19.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## 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.

21. We assess materiality at different levels as described below and the materiality values for the 2019/20 audit of the IJB are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2020 based on the 2018/19 audited annual report and accounts.	£5.4 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 set performance materiality at 70% of planning materiality.	£3.8 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.	£0.055 million

Source: Audit Scotland

### Timetable

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

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Agreement of transactions and balances with partner bodies	22 May 2020
Consideration of unaudited annual report and accounts by those charged with governance	23 June 2020
Latest date for the IJB to submit unaudited annual report and accounts with complete working papers package to Audit Scotland	By 30 June 2020
Latest date for final clearance meeting with Chief Finance Officer	By 31 August 2020
Issue of Letter of Representation and proposed independent auditor's report	08 September 2020
Agreement of audited unsigned annual report and accounts	08 September 2020
Issue of Annual Audit Report to those charged with governance	08 September 2020
Independent auditor's report signed and issued by Audit Scotland	By 30 September 2020

## Internal audit

**23.** Internal audit is a key element of the IJB's system of internal controls. The internal audit function is provided by a firm - i.e., Scott-Moncrieff. One of our other external audit teams carries out a central review of the firm's audit approach including compliance with Public Sector Internal Audit Standards (PSIAS). We take assurance from this work that there were no significant areas of non-compliance with PSIAS.

### Using the work of internal audit

**24.** The Code of Audit Practice requires 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, as set out in their plans, wherever possible to avoid duplication of effort.

**25.** For 2019/20, we concluded that there were no areas where we could use internal audit work to support our own financial statements responsibilities. However, we will liaise with internal audit to exchange information and intelligence. Additionally, we will consider internal audit reports where we believe they could inform our wider audit responsibilities - e.g., reviews of Corporate Governance and IT Governance.

## Audit dimensions

**26.** 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

**27.** 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

**28.** 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
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

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

### Governance and transparency

**30.** Governance and transparency are 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
- has effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- can demonstrate quality and timeliness of financial and performance reporting.

### Value for money

**31.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the IJB can demonstrate:

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

### Best Value

**32.** Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on these arrangements. We intend to perform a high-level review on the progress made with the Best Value recommendations that formed part of our Annual Audit Report for 2018/19.

### 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 (i.e., appointed auditor) for the IJB is John Cornett, 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 the IJB.

## Quality control

**35.** International Standard on Quality Control (UK) 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.

# Argyll & Bute Integration Joint Board

## Annual Audit Plan 2019/20

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