

# Moray Integration Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Moray Integration Joint Board

March 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 the Moray 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. In so doing, we intend to help the IJB promote improved standards of governance, better management and decision-making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and review of supporting information we have identified the following significant audit 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 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 to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Assurance from partner body auditors on the accuracy and completeness of year-end financial reports.</p> <p>Check accuracy and completeness of the consolidation of financial reports from partners.</p> <p>Detailed testing of significant adjustments at year end.</p> <p>Review financial monitoring reports during the year.</p>

**Audit Risk****Source of assurance****Planned audit work****Wider dimension risks****2 Risk to financial sustainability**

Recent financial monitoring reports forecast a £1.7 million overspend (after application of strategic funds and ring-fenced reserves) for 2019/20 which will require to be funded by partner bodies. A shortfall of £1 million in savings set out in the financial recovery plan agreed in November 2018 has contributed to this overspend.

There is a risk that the recovery plan's savings are not achievable and that without any reserves to fall back on the current service is not financially sustainable.

In previous years we have recommended that a long-term financial strategy (5 years +) should be prepared. In October 2019, the IJB agreed a medium term (3-5 years) financial framework to support the new Strategic Plan.

There is a risk that the underlying assumptions in the financial framework are not reasonable, and that the IJB is not able to adequately respond to financial risks as they arise.

Quarterly financial reports presented to committee, including progress made against the recovery plan. This will require to be broadened in 2020/21 to recovery through transformation.

Long-term Strategic Plan and medium-term financial framework. The financial framework will be updated regularly to ensure it remains consistent with the Strategic Plan through this period of transformation.

Review the newly developed 10-year Strategic Plan and associated medium-term financial framework for reasonableness.

Review financial monitoring reports during the year, and progress against the recovery plan.

Consider the 2020/21 revenue budget and plans to address any funding gap which may arise.

**3 Risk to effective financial management**

Last year we reported that the financial monitoring reports treat transfers from reserves as additional in-year funding which makes it difficult to reconcile the projected outturn position with the disclosures made in the financial statements. There is a risk that financial pressures are not identified and managed in a timely manner if the financial position reported throughout the year does not reflect the expected position in the financial statements.

Financial reports to the IJB will be reviewed to ensure clarity in respect of the expected position in the financial statements.

Review financial monitoring during the year and report progress against the 2018/19 audit recommendation.

## Reporting arrangements

- 5.** Audit reporting is the visible output for the annual audit. All annual audit plans, 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).
- 6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans.
- 7.** We will provide an independent auditor's report to the IJB and Accounts Commission setting out our opinions on the annual accounts. We will also provide 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	IJB meeting date
Annual Audit Report	10 September 2020	24 September 2020
Independent Auditor's Report (signed)	24 September 2020	N/A

Source: Audit Scotland

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## Audit fee

- 8.** The agreed audit fee for the 2019/20 audit of Moray IJB is £26,560 (2018/19: £25,000). In determining the audit fee, we have taken account of the risk exposure of the IJB, the planned management assurances in place and the level of 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 25 June 2020.
- 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

### Moray Integration Joint Board and Chief Accountable 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 members of the IJB, as those charged with governance, of their responsibilities.

### Appointed auditor

- 12.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.
- 13.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the IJB to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**14.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the IJB and the associated risks which could impact on the financial statements
- obtaining assurances from the auditors of the partner bodies (NHS Grampian and Moray Council) on 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.

**15.** 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 at 31 March 2020 and of 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
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Other information in the annual accounts

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

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

## Materiality

**18.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

19. We calculate materiality at different levels as described below. The calculated materiality values for the IJB are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for the year ended 31 March 2019.	£1.3 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 60% of planning materiality. This judgement is based on the expectation of a low level of estimation and error and the assurance we plan to place on the work of the partner bodies' auditors.	£780,000
<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 5% of planning materiality.	£65,000

Source: Audit Scotland

### Timetable

20. To support the efficient use of resources it is critical that a timetable is agreed with us for the audit of the annual accounts. [Exhibit 4](#) sets out the agreed timetable which takes account of submission requirements and planned IJB meeting dates.

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	25 June 2020
Latest submission date for unaudited annual accounts with complete working papers package	25 June 2020
Latest date for final clearance meeting with Chief Financial Officer	3 September 2020
Agreement of audited unsigned annual accounts	10 September 2020
Issue of Annual Audit Report including ISA260 report to those charged with governance	
IJB meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	24 September 2020
Independent Auditor's Report signed	24 September 2020

Source: Audit Scotland



## Internal audit

**21.** Internal audit is provided by Moray Council's internal audit section. As part of our planning process we carried out an early assessment of the internal audit function and concluded that, overall, it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). During 2019/20 we will continue to monitor progress made in implementing the action plan resulting from the external quality assessment completed in April 2019.

### Using the work of internal audit

**22.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources, and so we seek to rely on the work of internal audit, wherever possible, to avoid duplication. We do not plan to place any formal reliance on the work of internal audit in 2019/20 as we intend to use a substantive approach for the audit of the IJB's financial statements. We will consider internal audit's work on residential care costs for the elderly and CareFirst information governance as part of our wider dimension audit responsibilities.

## Audit dimensions

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

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**24.** 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

**25.** 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
- can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance information
- has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**26.** 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 of decision-making
- the quality and timeliness of financial and performance reporting.

### Value for money

**27.** 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
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving.

### Best Value

**28.** 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

**29.** 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.

**30.** The engagement lead (i.e. appointed auditor) for the IJB is Brian Howarth, 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

**31.** 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.

**32.** 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.

**33.** 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.

# Moray Integration Joint Board

## Annual Audit Plan 2019/20

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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