

# Scottish Borders Integration Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Borders Integration Joint Board

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 of Scottish Borders Integration Joint Board (“the IJB” or “the Board”) 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 audit, including 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 promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following significant risk for the 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
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>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 order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<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 and allocation of the income and expenditure.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
2	<p><b>Chief Financial Officer (CFO)</b></p> <p>There is no permanent Chief Financial Officer (CFO) at the IJB. From our planning discussions management are hoping to have an appointment in place for April 2020, although it may take longer than this.</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 discussions and meetings with management</li> </ul>
3	<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. The IJB has established a working group to monitor the set aside budget.</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 in line with legislation.</p>	<p>Ongoing discussions with NHS Borders ensuring that set aside is appropriately disclosed in the 2019/20 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 risks</b>			
4	<p><b>Financial sustainability</b></p> <p>The IJB's financial plan for 2019/20 required a significant level of efficiency savings, totalling £13.6m, of which £11.7m were unidentified. These savings targets were revised in August, highlighting a new savings target of £5.5m, as a result of NHS Borders agreeing additional brokerage with the Scottish Government and identification of non-recurring savings. The latest finance update in October 2019 highlighted that the Board were forecasting unidentified savings of £1.4m at the year end.</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/audit committee 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>

	Audit Risk	Source of assurance	Planned audit work
5	<p><b>Financial management: Budget Setting</b></p> <p>Due to the high level of unidentified savings needed, the IJB only formally agreed their budget for 2019/20 in August 2019.</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 throughout the year</li> </ul>
6	<p><b>Governance: Audit Committee Attendance</b></p> <p>We reported variable levels of attendance by senior officers at audit committee meetings in 2018/19. This has continued in 2019/20.</p> <p>There is a risk that the Audit Committee may not be able to effectively scrutinise committee business if officers are not available to answer questions.</p>	<p>The meetings schedules and senior officers' calendars have been aligned to ensure attendance at Audit Committee meetings from August 2019.</p>	<ul style="list-style-type: none"> <li>• Continue to monitor committee attendance and level of scrutiny through observation and review of committee minutes and papers.</li> </ul>
7	<p><b>Governance: Ministerial Review Self Assessment</b></p> <p>In March 2019 the Ministerial Strategic Group for Health and Community Care (MSG) issued a self evaluation template to health and social care partnerships as part of an evaluation of progress with the integration of health and social care. The IJB evaluated itself as being not yet established in one area, partly established in 15 areas, established in 6 areas and exemplary in no areas.</p> <p>There is a risk that health and social care are not fully integrated and this could lead to the IJB operating in an ineffective manner.</p>	<p>Progress on the implementation of the MSG Self Evaluation Health and Social Care Partnership Action Plan will be scrutinised by the Audit Committee.</p> <p>Audit Committee Action Tracker.</p>	<ul style="list-style-type: none"> <li>• We will continue to monitor actions taken in response to this self evaluation as this progresses.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

5. 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).

6. 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.

**7.** We will provide an independent auditor's report to Scottish Borders Integration Joint Board and the 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.

## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Latest date	Committee Date
Annual Audit Plan	21 February 2020	9 March 2020
Annual Audit Report	3 August 2020	17 August 2020
Independent Auditor's Report	20 August 2020	N/A

Source: Audit Scotland

## Audit fee

**8.** The audit fee for the 2019/20 audit of the Board is £26,560 (2018/19 - £25,000). In determining the audit fee we have taken account of the risk exposure of the 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 30 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

### Audit Committee and Management

**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 Audit Committee, 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 four audit dimensions that frame the wider scope of public sector audit requirements. 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
- 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.

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

- give a true and fair view of the state of affairs of the IJB as at 31 March 2020 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.

## Other information in the annual accounts

**16.** We 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.

**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 statutory 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.

**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 1.5% of gross expenditure for the year ended 31 March 2020 based on the latest budget for 2019/20.	£2.9 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.	£2.0 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.	£60,000

Source: Audit Scotland

## Timetable

**20.** 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 year end balances with NHS Borders and Scottish Borders Council	1 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting with Chief Finance Officer	27 July 2020
Issue of Annual Audit Report, including ISA 260 requirements to those charged with governance	10 August 2020
Approval of audited unsigned annual accounts by the IJB Board	19 August 2020
Independent auditor's report signed	20 August 2020

## Internal audit

**21.** Internal audit is provided by the internal audit service at Scottish Borders Council and is overseen by the Chief Officer of Audit & Risk at the council who is 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 the main requirements of the 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

**22.** 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 to ensure the total resource is used efficiently or effectively.

**23.** 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 2019/20 for the IJB.

### Audit dimensions

**24.** 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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**25.** 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

**26.** 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 short term (up to two years), 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

**27.** 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 the 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

**28.** 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

**29.** 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.
- there is sufficient focus on improvement and the pace of it.

## Best Value

**30.** 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

**31.** 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.

**32.** The engagement lead for Scottish Borders Integration Joint Board 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 the IJB.

## Quality control

**33.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires a system of quality control to be 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.

**34.** 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.

**35.** 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 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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