

# South Lanarkshire Integration Joint Board

Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for by South Lanarkshire 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

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 audit plan contains an overview of the planned scope and timing of our audit of the South Lanarkshire Integration Joint Board for 2019/20. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland.
2. 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. We make a public report of conclusions on these matters in our Annual Audit Report to the Joint Board and the Controller of Audit.
3. 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 organisation promote improved standards, better management and decision making, and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at meetings and a review of supporting information we have identified a number of key risks for South Lanarkshire Integration Joint Board. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks and the audit work planned to address them, are set out at [exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>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.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in expenditure</b></p> <p>Auditing standards assert that fraud should be presumed to be a significant risk in any audit.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>Assurances will be obtained from the auditors of NHS Lanarkshire and South Lanarkshire Council over the accuracy, completeness and appropriate allocation of the Integration Joint Board ledger entries.</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
<p><b>3 Hospital acute services (set aside)</b></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 2018/19: the amount set aside, was based on 2016/17 activity levels as provided by NHS National Services Scotland’s Information Services Division, updated for 2018/19 costs.</p> <p><b>Risk</b></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 2019/20.</p>	<ul style="list-style-type: none"> <li>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.</li> <li>Monitor Scottish Government guidance on the treatment of set aside in the 2019/20 financial statements to establish whether the financial statements are compliant.</li> </ul>
<p><b>4 Use of reserves</b></p> <p>At 31 March 2019 the Joint Board held reserves amounting to £11.023 million. Having a reserves policy which sets out how and when reserves will be used and having appropriate measures to correctly account for the use of reserves is essential for accurate financial reporting and for managing the Joint Board’s resources.</p> <p>This is particularly significant in 2019/20 as the Scottish Government has directed Integration Joint Boards to use reserve balances for specific areas before drawing down further agreed funding from the Scottish Government. For South Lanarkshire Integration Joint Board, £6 million of funding will be held by the Scottish Government until existing reserves for these areas are spent.</p> <p><b>Risk</b></p> <p>There is a risk that the Joint Board will not be able to draw down the agreed funding if they are unable to demonstrate that existing reserves have been utilised.</p>	<p>The Chief Financial Officer will review the reserves policy for the Joint Board in 2019/20 and will work with partner bodies to ensure that the use of reserves is correctly accounted for.</p>	<ul style="list-style-type: none"> <li>Review the 2019/20 reserves policy.</li> <li>Review the accounting for the use of reserves.</li> </ul>
<p><b>5 Assurances from Internal Audit and partner bodies</b></p>	<p>Internal Audit’s opinion on the internal control environment and the</p>	<ul style="list-style-type: none"> <li>Review the Internal Audit Annual Report which includes the assurance</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>Assurances from Internal Audit and partner bodies are a key aspect of the control environment as they provide management with the necessary assurances to enable preparation of the annual governance statement and unaudited accounts.</p> <p>In 2018/19, neither Internal Audit's opinion on the internal control environment or the necessary assurances from South Lanarkshire Council were received by the Joint Board prior to the approval of the unaudited accounts.</p> <p><b>Risk</b></p> <p>There is a risk that members of the Joint Board are not adequately informed of any issues which may impact on the annual governance statement or annual accounts.</p>	<p>necessary assurances from both partners will be presented to the Joint Board prior to the approval of the unaudited accounts.</p>	<p>over the control environment.</p> <ul style="list-style-type: none"> <li>Review the assurances from the partner bodies.</li> <li>Monitor Internal Audit Reports taken to the Joint Board.</li> </ul>
<p><b>6 Internal Audit</b></p> <p>Internal audit is a key source of assurance for both the Joint Board and management team. The annual internal audit plan sets out the work that will be undertaken by internal audit during the year. In preparing the annual audit plan, internal audit should focus upon the most important objectives and the highest priority risks facing the Joint Board. Consultation with management is an important part of creating the plan. From the agreed plan should flow the internal audit resourcing requirement. The 2019/20 plan was approved in September 2019.</p> <p>It is essential that the Joint Board is informed of progress against the audit plan to ensure that any issues arising from the audit are known and that the impact of any slippage against the plan can be assessed and addressed. No progress reports were submitted to the Joint Board during 2018/19.</p> <p><b>Risk</b></p> <p>There is a risk that the Joint Board is not clearly sighted on progress against the delivery of the Internal Audit Plan or audit issues arising and can therefore not take any remedial action required.</p>	<p>Progress reports in respect of the delivery of the Internal Audit Plan will be presented to the Joint Board at regular intervals to ensure progress can be monitored and slippage, if any, can be addressed.</p> <p>The Internal Audit Plan for the forthcoming year ahead will be agreed before 1 April 2020. This will facilitate the timing of audits earlier in the year.</p>	<ul style="list-style-type: none"> <li>Review of the progress against the Annual Audit Plan.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>			
7	<b>Medium to long-term financial planning</b>  The Joint Board does not have a medium to long-term financial plan in place.  <b>Risk</b>  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.	The Chief Financial Officer is currently working with the partner bodies to develop a meaningful medium to long-term plan.  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 2020/21.	<ul style="list-style-type: none"> <li>Monitor progress in developing a medium to long-term financial plan and report as appropriate in the Annual Audit Report.</li> </ul>

Source: Audit Scotland

5. International auditing standards require auditors to make a rebuttable presumption of a risk of fraud in the recognition of income. The Joint Board is wholly funded by NHS Lanarkshire and South Lanarkshire Council. Consequently, we conclude that there is no risk of material misstatement caused by fraud over income recognition.

## Reporting arrangements

6. This audit plan and the outputs set out at [exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

7. 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, prior to the issue and publication of final reports.

8. We will provide an independent auditor's report to the Joint Board and 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 containing observations and recommendations on significant matters which have arisen during the course of the audit.

## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 February 2020	17 March 2020
Independent Auditor's Report	30 September 2020*	29 September 2020
Annual Audit Report	30 September 2020*	29 September 2020

\*These dates represent the certification deadline for the 2019/20 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.

## Audit fee

**9.** The agreed audit fee for the 2019/20 audit of South Lanarkshire Integration Joint Board is £26,560 (£25,000 2018/19). 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.

**10.** 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

**11.** Audited bodies are responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity.

**12.** The audit of the annual accounts does not relieve management or the Joint Board of their responsibilities.

### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice and the auditing profession's ethical guidance.

**14.** Auditors in the public sector give independent opinions on the financial statements and other information within the annual accounts. We also review and report on the arrangements for performance management, regularity and use of resources.

# Audit scope and timing

## Annual accounts

**15.** The annual accounts audit 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 South Lanarkshire Integration Joint Board and the associated risks which could impact on the financial statements
- assessing how weaknesses in the key systems of internal control could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how these will be disclosed in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide sufficient audit evidence as to whether the financial statements are free from material misstatement.

**16.** 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 as at 31 March 2020 and of the income and expenditure for the year;
- whether the annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom;
- whether the annual accounts have been prepared in accordance with relevant legislation.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Other information in the annual accounts

**17.** We review other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether they 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

**18.** 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 give 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 at [exhibit 3](#).

## Exhibit 3

### Materiality levels

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 budget monitoring information for 2019/20.	£5.392 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.	£3.235 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 2% of planning materiality.	£0.108 million

Source: Audit Scotland

## Timetable

19. An agreed timetable, which takes into account submission requirements and Joint Board meeting dates, is included at [exhibit 4](#).

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by the Joint Board	30 June 2020
Latest submission date of unaudited annual accounts to external audit	30 June 2020
Latest date for final clearance meeting with Chief Financial Officer	29 July 2020
Agreement of audited unsigned annual accounts	29 September 2020
Independent Auditor's Report	29 September 2020
Issue of Annual Audit Report	29 September 2020

## Internal audit

20. 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

21. 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 2020. In addition, the external auditors of the partners have completed assessments of their respective bodies.

**22.** Notwithstanding the risks associated with the resourcing and achievement of the internal audit plan for 2019/20, set out at [exhibit 1](#), all assessments found that the internal audit services operate in accordance with Public Sector Internal Audit Standards and have sound documentation standards and reporting procedures in place.

## Audit dimensions

**23.** Our standard audits are based on four audit dimensions which define the wider scope of public sector audit. These are: financial sustainability, financial management, governance and accountability and value for money, [exhibit 5](#).

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**24.** 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 Joint Board's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2019/20:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability
- the 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:

- 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

**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:

- the quality and timeliness of financial and performance reporting.
- whether there is effective scrutiny and challenge of the decision-making and finance and performance reports.
- whether governance arrangements are appropriate and operating effectively.

## Value for money

**27.** Value for money refers to using resources effectively and continually improving services. We will assess whether the 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.

**28.** As part of our planning work, we noted a recent Care Inspectorate report on care at home services in Hamilton, which resulted in the service receiving an Improvement Notice. An urgent improvement plan is being implemented and progress against this will be monitored by the Care Inspectorate.

**29.** Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on the arrangements in place.

**30.** In the spring of 2020, Audit Scotland will be undertaking the review of “Children and Young People’s Mental Health”. We will provide local support to the review as required.

## EU withdrawal

**31.** On 31 January 2020, the United Kingdom left the European Union. Work is ongoing with the Scottish Government and the Joint Board’s partner organisations to ensure that all necessary and appropriate steps are taken to minimise any disruption caused by EU withdrawal.

## Independence and objectivity

**32.** Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. 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.

**33.** The 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

**34.** International Standard on Quality Control (UK and Ireland) 1 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.

**35.** 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 issued by Audit 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) has been engaged to carry out an annual programme of external quality reviews.

**36.** 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 appointed auditor or to Audit Scotland's Audit Quality and Appointments group.

# South Lanarkshire Integration Joint Board

## 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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