

Fife Integration Joint Board

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Fife Integration Joint Board
January 2021

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

Introduction

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 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.

Impact of COVID-19

3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant effect on every aspect of Scottish society. Health and social care services have been front and centre of the public service response to the pandemic, necessitating changes to the way services are provided in many cases. The IJB is incurring additional costs in dealing with the pandemic. The delivery of planned savings from redesign and transformation initiatives has been delayed and the extent of additional funding available to meet additional costs and historic shortfalls is not clear.

4. In Audit Scotland we continue to manage the impacts on covid-19 on the audit process and expect that 2020/21 will be more challenging than 2019/20, as the extended reporting timescales last year affect our current year resource position. This includes a bid for additional funding to the Scottish Commission for Public Audit, reflecting the increased costs and reduced productivity impacts on Audit Scotland and its partner firms from Covid-19. This is intended to protect local audit fees. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value through our external audit of Fife Integration Joint Board 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


6. We will follow up the risk areas and recommendations identified as part of our 2019-20 audit ([Appendix 1](#)) in addition to working with the IJB to explore risks emerging during our audit.

7. The most significant risks, which will require specific audit work, are identified in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to 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"> • Agreement of balances and transactions to Fife Council and NHS Fife financial reports / ledger / correspondence. • Service auditor assurances will be obtained from the auditors of Fife Council and NHS Fife over the completeness, accuracy and allocation of income and expenditure. These may be affected by audit timetables, which are yet to be agreed with the partners. • Review of year-end adjustments and journals • On-going review of financial position.
Wider dimension risk		
<p>2 Financial management</p> <p>The IJB has not realigned budgets in line with strategic priorities to address areas of recurrent under and overspend.</p> <p>Covid-19 has impacted savings delivery in 2020-21 resulting in a forecast overspend for the year of £6.8m.</p> <p>It is unclear whether additional funding will be made available to compensate for all COVID-19 costs including undelivered savings. The IJB is currently forecasting a budget overspend of £6.8m.</p> <p>It is unclear whether there are underlying issues with operational financial management that need to be addressed.</p>	<p>The IJB is working to realign budgets and to improve finance reports.</p>	<ul style="list-style-type: none"> • Review the budget setting process for 2021-22. • Consider an area of overspend in 2020/21 to identify the underlying reasons for the overspend and management actions to address this. • Review of finance reports. • Establish the funding and cost impacts of Covid-19 on 2020/21 outturn.

	Audit Risk	Source of assurance	Planned audit work
	Finance reports could be improved to enable more effective scrutiny.		
3	<p>Financial sustainability</p> <p>The IJB set a balanced budget for 2020-21 but the delivery of planned savings has been impacted by the disruption to operations caused by COVID-19.</p> <p>Savings planned for future years in the medium-term financial strategy have been impacted by COVID-19.</p> <p>Delivery of redesign and transformation is becoming increasingly critical.</p>	The IJB is working to update plans and strategies for the impact of COVID-19.	<ul style="list-style-type: none"> • Review the updated medium-term financial strategy. • Consider the robustness of future savings plans. • Consider progress with delivery of the transformation programme.
4	<p>Value for money</p> <p>The IJB is not currently demonstrating value for money and continuous improvement through the effective use of performance information.</p>	The IJB is working to improve performance reporting and the use of performance information.	<ul style="list-style-type: none"> • Review routine performance reports and the use of performance information in the annual report and the annual accounts.

Source: Audit Scotland

8. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. 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 these presumed risks in 2020/21 in Fife IJB. In practice, the opportunity and incentive to manipulate income in the public sector is much lower than in the private sector and the IJB relies on its partner organisations systems to authorise, process and record transactions. The IJB does not have any assets, nor does it directly incur expenditure, make cash transactions, or employ staff (other than appointing the Chief Officer and Chief Financial Officer). All funding and expenditure for the IJB is incurred by partner bodies and processed in their accounts. Satisfactory arrangements are in place in partner bodies to identify this income and expenditure and report this to the IJB.

Reporting arrangements

9. 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.

10. 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 officers to confirm factual accuracy.

11. 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 Chief Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

12. The management of the unique and continuing challenges presented by Covid-19 means that we need to continue to take into consideration that audits are taking

longer and we are starting the current year's audit later. This has an impact on the proposed reporting timescales, based on resources available and prioritisation decisions. This is reflected in the timetables below, which we will endeavour to meet, whilst recognising that greater uncertainty exists during the Covid-19 pandemic.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	8 January 2021	22 January 2021
Independent Auditor's Report	26 November 2021	26 November 2021
Annual Audit Report	26 November 2021	26 November 2021

Source: Audit Scotland

Audit fee

13. The proposed audit fee for the 2020/21 audit of Fife IJB is £28,000 (£27,000 2019-20). In determining the audit fee we have taken account of the risk exposure of the IJB Fife Integration Joint Board, the planned management assurances in place, the level of reliance we plan to take from the work of internal audit and the extent of work required on previous years' recommendations (including the s102 review in 2019/20). Our audit approach assumes receipt of the unaudited annual accounts and working papers by 30 June 2021.

14. 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 out with our planned audit activity.

Responsibilities

Integration Joint Board and Chief Officer

15. 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.

16. 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

17. 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.

18. 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

19. 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 at the IJB and its constituent bodies, and establishing how weaknesses in these systems could impact on the IJB financial statements
- identifying major partner body transaction streams in relation to IJB activities and understanding how they impact the IJB financial statements
- assessing the risks of material misstatement in the IJB financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the IJB financial statements are free of material misstatement.

20. 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 2021 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

21. 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.

22. 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

23. 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.

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



characteristics



responsibilities



principal activities



risks



governance arrangements

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% of gross expenditure for the year ended 31 March 2021 based on the latest budget.	£6.3 million
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 60% of planning materiality.	£3.75 million
Reporting threshold (i.e., clearly trivial) – 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 3% of planning materiality.	£190,000



Source: Audit Scotland

Timetable

25. 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
Consideration of unaudited annual report and accounts by Audit & Risk Committee	9 July 2021
Latest submission date of unaudited annual report and accounts with working papers	30 June 2021
Latest date for receipt of assurances from constituent body Auditors	31 October 2021
Latest date for final clearance meeting with Chief Finance Officer	31 October 2021
Issue of Letter of Representation and proposed independent auditor's report	1 November 2021
Agreement of audited unsigned annual accounts	1 November 2021
Independent auditor's report signed	26 November 2021
Issue of Annual Audit Report to Audit & Risk Committee	19 November 2021

Internal audit

26. Internal audit in 2020-21 is provided by the Audit and Risk Management Service from Fife Council with a change of auditor planned for 2021/22 when responsibility for the internal audit of the IJB will transfer to NHS Fife's internal auditor: FTF Audit and Management Services. As part of our planning process the external auditors for each partner body carried out an assessment of the internal

audit functions and concluded that they operate in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

27. International 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 work wherever possible and plan to consider their findings as part of our wider dimension audit work. There are no planned internal audit reviews of IJB arrangements that would directly impact our financial audit work.

Wider audit dimensions

28. In addition to our audit of the financial statements we undertaken work on the wider audit dimensions in line with the Code of Audit Practice. The 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 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 systems 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.

Financial sustainability

30. 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.

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 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

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the IJB can provide evidence that it is demonstrating value for money in the use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Best Value

33. Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on how the IJB demonstrates that it has met its best value responsibilities.

Independence and objectivity

34. 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.

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

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 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.

38. 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.

Appendix 1: Prior year Action Plan (2019-20)



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Accounting for income from clients</p> <p>There is inconsistency in how income from clients is accounted for and some amounts credit to NHS income codes should have been brought to account.</p> <p>Risk</p> <p>Failure to account for partner body income and expenditure consistently could undermine the usefulness of the accounts.</p>	<p>Ensure that the revised integration scheme covers the treatment of income for accounting purposes and the accounts are consistent with the integration scheme.</p>	<p>Accounting principles have been updated.</p> <p>Review to be carried out with both partners with a view to reporting on a consistent basis for 2020-21.</p> <p>Consideration to be given to providing clarity of treatment within the Integration Scheme.</p> <p>Chief Finance Officer</p> <p>March 2021</p>
2	<p>Budget setting</p> <p>The IJB is not setting budgets at service level.</p> <p>Risk</p> <p>That budgets set are not in line with strategic priorities.</p>	<p>Budgets should be set by the IJB at activity level in line with strategic priorities.</p>	<p>Work under development to produce directions to both Partner organisations that provide budget and activity information at service level when the budget is approved by the IJB.</p> <p>Chief Finance Officer</p> <p>April 2021</p>
3	<p>Finance reports</p> <p>There is scope to improve the quality and transparency of budget reports.</p> <p>Risk</p> <p>Effectiveness of scrutiny is reduced if sufficient relevant information is not provided on a timely basis.</p>	<p>Improve finance reports by analysing expenditure fully across services, explaining changes in budgets, and including activity information and unit costs.</p>	<p>There will be work taken forward with both partner organisations to provide further fit for purpose information to the Finance and Performance committee.</p> <p>Additional information will be provided in future finance reports to ensure a clear audit trail of additional budgets.</p> <p>Chief Finance Officer</p> <p>April 2021</p>

4	Operational financial management	Consider the need for more detailed review of financial management arrangements in areas of service overspend.	<p>Work has already begun in this area. A commitment has been given to consider areas at most risk at future meetings of the Finance and Performance Committee.</p>
	<p>It is unclear whether any underlying issues with financial management at an operational level are being addressed.</p>		<p>A process of escalation is being developed which adds a further level of decision making and approval where spend has exceeded budget.</p>
	Risk		<p>Chief Finance Officer</p>
	<p>The current grip and control approach to constraining expenditure may mean that underlying financial management issues are not being addressed.</p>		<p>March 2021</p>
5	Savings plans	Detailed plans should be developed for the delivery of the redesign and transformation initiatives in the Medium-Term Financial Strategy.	<p>Project Initiation Documents (PIDS) to be developed that provide clarity over the medium- term.</p>
	<p>It is not always clear what the arrangements are for the delivery of redesign and transformation savings are.</p>		<p>There is also an opportunity to review the MTFS given the impact of Covid and the advances made in terms of digital platforms.</p>
	Risk		<p>Chief Finance Officer</p>
	<p>That savings identified are not deliverable.</p>		<p>March 2021</p>
6	Medium Term Financial Strategy	Update the MTFS to take account of the impact of Covid 19.	<p>As per no 5 above Chief Finance Officer</p>
	<p>Delivery of the MTFS has been impacted by Covid 19.</p>		<p>March 2021</p>
	Risk		
	<p>That the MTFS is no longer appropriate.</p>		
7	Governance arrangements	Ensure that the revised governance arrangements are clear on operational management responsibilities.	<p>This will be addressed under the review of the Integration Scheme</p>
	<p>The need for clearer roles and responsibilities between the IJB and its partner bodies has been highlighted and a review is underway.</p>		<p>Chief Officer</p>
	Risk		<p>March 2021</p>
	<p>Failure to clarify arrangements in relation to operational management may impact on service delivery.</p>		
8	Revised Integration Scheme	The updated Integration Scheme should be approved and submitted to the Scottish Government by 31 March 2021.	<p>Agreed. Work is ongoing to achieve this deadline Chief Officer in conjunction with Fife Council and NHS Fife</p>
	<p>Revised integration schemes were originally due to be agreed and submitted to the Scottish Government by 31</p>		<p>March 2021</p>

March 2020 but have been delayed due to Covid 19.

Risk Delay of the integration scheme may delay improvement of governance arrangements.

9	<p>Transformation plans</p> <p>Delivery of transformation has been impacted by Covid 19.</p> <p>Risk</p> <p>Failure to deliver transformation could impact sustainability.</p>	<p>Ensure that transformation initiatives are reviewed and revised to reflect the impact of Covid-19</p>	<p>Agreed. Will be addressed as part of the review and updating of the Medium-Term Financial Strategy.</p> <p>Chief Finance Officer</p> <p>March 2021</p>
10	<p>Performance reporting</p> <p>Performance reporting would benefit from more effective use of indicators with clearer conclusions in relation to continuous improvement and value for money.</p> <p>Risk</p> <p>Failure to improve reports could impact the quality of scrutiny.</p>	<p>Improve performance reporting through the inclusion of concise summaries and clearer conclusions.</p>	<p>Advances made during 2020-21 with the production of an executive summary. Further improvements to be made during 2021-22 including trend analysis and benchmarking with other HSCPs</p> <p>Head of strategic planning, performance and commissioning</p> <p>March 2022</p>
11	<p>Emergent good practice</p> <p>Health and Social Care Scotland have identified examples of emergent good practice in integration against which partnerships can compare their own practice. No formal review has yet taken place.</p> <p>Risk</p> <p>That there are unrealised opportunities to further improve practices in Fife.</p>	<p>Undertake a review of the emergent good practice identified by Health and Social Care Scotland and assess the suitability of initiatives for Fife.</p>	<p>Review to be carried out during 2021-22</p> <p>Chief Finance Officer</p> <p>March 2022</p>

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