



Meeting of East Renfrewshire Integration Joint Board	Performance and Audit Committee
Held on	29 March 2017
Agenda Item	9
Title	Audit Scotland Draft Annual Audit Plan 2016/17
<p>Summary</p> <p>This annual audit plan contains an overview of the planned scope and timing of Audit Scotland's external audit of East Renfrewshire Health and Social Care Partnership Integration Joint Board.</p>	
Presented by	Audit Scotland
<p>Action Required</p> <p>Performance and Audit Committee members are asked to note and comment on the draft report.</p>	

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East Renfrewshire Health and Social Care Partnership Integration Joint Board

Annual Audit Plan 2016/17

 AUDIT SCOTLAND

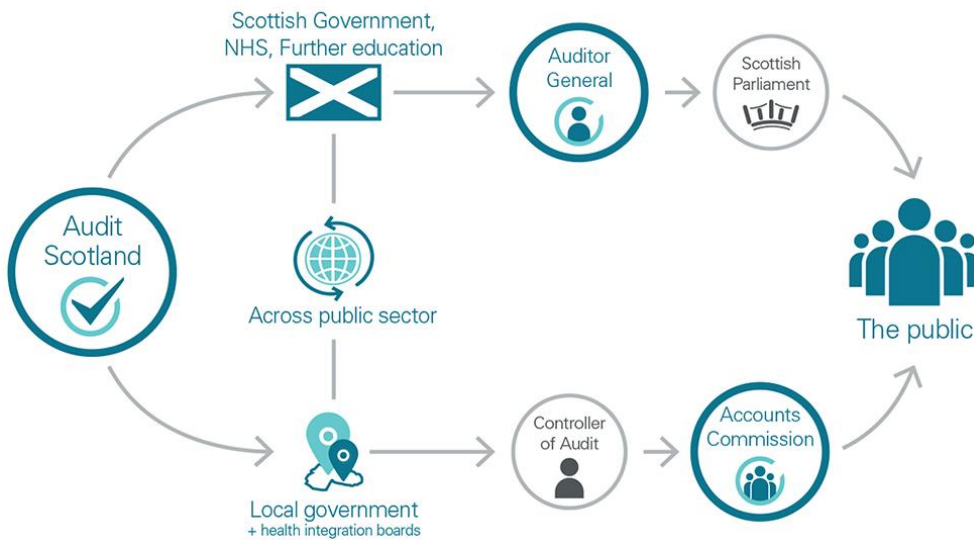
Prepared for East Renfrewshire Health and Social Care Partnership Integration Joint Board

March 2017

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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for East Renfrewshire Health and Social Care Partnership Integration Joint Board ('the Integration Joint Board'). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>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 in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Carefirst</p> <p>In 2015/16 the council introduced a Care Finance system which is used to process payments to care providers as part of the social work database. A number of concerns with the system were reported by Audit Scotland in 2015/16. These related to the lack of segregation of duties and incomplete and delayed reconciliations between the Care finance system and the finance ledger. In addition, there have</p>	<p>The action plan from the 2015/16 annual accounts is reported to each meeting of the Performance & Audit Committee of the IJB, with the latest update as at 23 November 2016.</p> <p>Quarterly reconciliations are in place for 2016/17 between Care Finance and the ledger.</p> <p>Information at work has been introduced which provides a</p>	<p>Controls will be tested during the audit of East Renfrewshire Council</p> <p>Review of assurances from service auditors</p> <p>Review of progress reports presented to the IJB</p>

Audit Risk	Management assurance	Planned audit work
<p>been significant delays in the time taken to pay creditors by the HSCP. There is a risk that under/overpayments to providers are not identified and addressed, and could result in misstatements in the financial statements.</p>	<p>full audit trail for separation of duties, whilst we still pursue a system functionality solution.</p> <p>The creditors performance is improving and we are working hard to implement robust solutions to manage the timing issues related to the levels of detail within Care First and the prompt settlement of invoices.</p>	
<p>3 Budget-setting process</p> <p>In 2015/16 and 2016/17 the Integration Joint Board's budget was not finalised until the financial year had commenced. This was due to the NHS Greater Glasgow and Clyde contribution to the Integration Joint Board budget not being confirmed until August 2016. There is a risk that delaying the budget until after the Integration Joint Board has incurred expenditure for the year may result in increased financial pressures.</p>	<p>Given the nature of central government funding the NHS budget cannot be formally approved prior to the start of the new financial year.</p> <p>However indicative budgets have been provided for 2017/18 in January 2017.</p> <p>In addition there are monthly national network and local liaison meetings where budget implications are discussed.</p>	<p>Review of 2017/18 budget setting reports</p> <p>Review of budget position reports throughout the financial year to determine significant variances</p>
<p>Wider dimension risks</p>		
<p>4 Financial pressures</p> <p>The Integration Joint Board has a savings target of £4.028m for 2017/18. Savings targets are likely to prove more difficult to achieve in years going forward give that a large element of savings have already been achieved due to the previous integration of health and social care at the Council. There is a risk that any inability to meet these savings will impact negatively on the services provided by the Health and Social Care Partnership.</p>	<p>Plans are in place to achieve the existing savings targets for 2017/18.</p> <p>The IJB has recognised that new and future savings will be achieved from a wider change programme including end to end service reviews.</p> <p>This is reflected in our reserves strategy which will allow new savings to be phased in during 2017/18.</p> <p>The budget position is routinely reported to the IJB through revenue monitoring and budget update reports.</p> <p>Scenario planning will be utilised for future modelling and planning.</p>	<p>Review the effectiveness of the Integration Joint Board's financial plans for 16/17 onwards</p> <p>Review the Integration Joint Board's progress in agreeing a budget and savings proposals for 17/18</p>
<p>5 Timing of providing financial information to Health Board</p> <p>The Integration Joint Board is not required to sign its 2016/17 Annual Accounts until September 2017. However, the board is required to provide financial information by May 2017 in order for the Health Board to prepare its annual accounts. There is</p>	<p>There is an agreement in place that the IJB will provide an indicative position for inclusion in the notes to the NHS accounts, recognising the conflicting timescales.</p> <p>A standard template has been issued to IJB Chief Financial Officers.</p>	<p>Review of procedures in place over provision of information from the partnership bodies to the Integration Joint Board.</p> <p>Ensure that the Integration Joint Board provides the required information to the Health Board within the</p>

Audit Risk	Management assurance	Planned audit work
a risk that any delays in confirming financial information will adversely impact on the financial reporting process of the partner organisation.		prescribed timeframe.

Reporting arrangements

3. 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.

4. 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.

5. We will provide an independent auditor's report to the Integration Joint Board and Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Proper Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Performance and Audit Committee Date
Annual Audit Report including ISA 260 requirements	20 September 2017	27 September 2017
Signed Independent Auditor's Report	20 September 2017	27 September 2017

Audit fee

6. The agreed audit fee for the 2016/17 audit of the Integration Joint Board is £17,400. In determining the audit fee we have taken account of the risk exposure of the Integration Joint 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 financial statements, with a complete working papers package by 30 June 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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

Performance and Audit Committee and Chief Financial Officer

8. 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.

9. The audit of the financial statements does not relieve management or the Performance and Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority 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 Integration Joint Board and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Integration Joint Board 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.

13. We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the Integration Joint Board as at 31 March 2017 and of the income and expenditure of the Integration Joint Board for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code
- whether they 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.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the Integration Joint Board are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing 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 2017 based on the latest budget figures for 2017.	£1.263 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 70% of planning materiality.	£0.884 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.013 million



15. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Performance and Audit Committee.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Performance and Audit Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Submission of consolidation pack to NHS Greater Glasgow and Clyde	31 May 2017
Consideration of unaudited financial statements by those charged with governance	28 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Chief Finance Officer	Early September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 September 2017
Independent auditor's report signed	By 30 September 2017

Internal audit

17. 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. Internal audit is provided by the internal audit service at the Integration Joint Board and is overseen by a Chief Internal Auditor.

Adequacy of Internal Audit

18. We carry out an annual assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards. We will report the results of this review when completed.

Areas of reliance

19. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Assessment of performance management arrangements and reporting

Audit dimensions

20. 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



21. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value. We will review elements of the audit dimensions throughout our 5 year audit appointment.

Financial sustainability

22. 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 the body's 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

23. 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 Integration Joint Board has arrangements in place to ensure systems of internal control are operating effectively
- whether the Integration Joint Board can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Integration Joint Board has assured itself that its financial capacity and skills are appropriate
- whether the Integration Joint Board has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

24. 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 Integration Joint Board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether Performance and Audit Committee and Board members and staff demonstrate high standards of behaviour and receive sufficient training and development
- 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

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Integration Joint Board can provide evidence that it is demonstrating value for money in the use of its resources and achievement of outcomes.

Exhibit 6

Strategic Plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial Planning		
Financial management		Financial Governance and Resource Management	
Governance and transparency	Governance		
Value for money			Operational Efficiency

Independence and objectivity

26. Auditors appointed by Audit Scotland 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

27. The engagement lead for the Integration Joint Board is David McConnell, Assistant 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 Integration Joint Board.

Quality control

28. 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.

29. 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 and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

30. 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.

East Renfrewshire Health and Social Care Partnership Integration Joint Board

Annual Audit Plan 2016/17

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