

Aberdeenshire Integration Joint Board

Annual Audit Plan 2018/19 - DRAFT



 AUDIT SCOTLAND

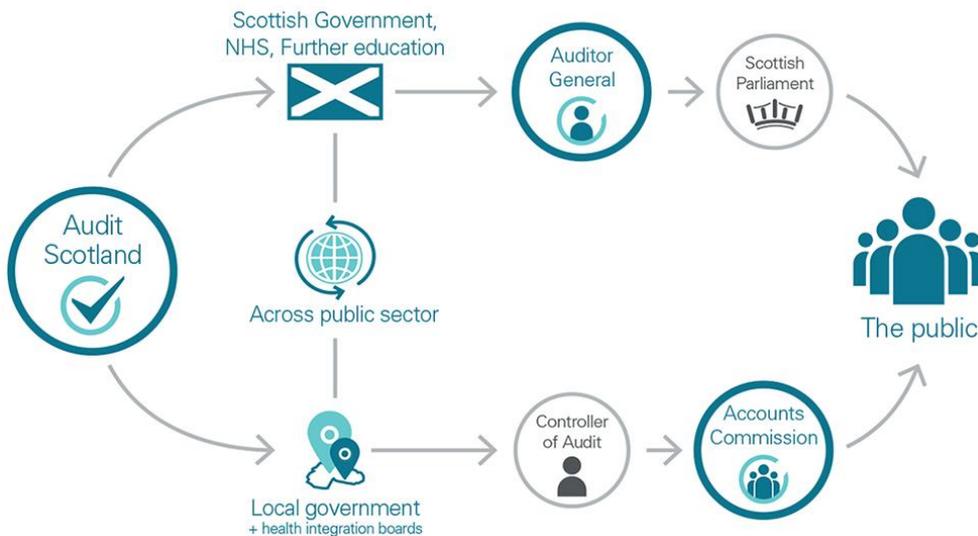
Prepared for by Aberdeenshire Integration Joint Board

February 2019

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 sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the Aberdeenshire Integration Joint Board (IJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at board and committee meetings and a review of supporting information we have identified the following main risk areas for Aberdeenshire IJB. 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 2018/19 Key audit risks

|  Audit Risk | Source of assurance | Planned audit work |
|---|--|---|
| Financial statements 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 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> | <ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluate service auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian) |
| <p>2 Risk of incompleteness of expenditure</p> <p>The transactions for the IJB are recorded through the partner ledgers</p> | <ul style="list-style-type: none"> • Assurances from partner bodies on the completeness and accuracy of data. | <ul style="list-style-type: none"> • Evaluate service auditor assurances from the auditors of partner bodies (Aberdeenshire Council |

|  Audit Risk | Source of assurance | Planned audit work |
|--|--|---|
| of NHS Grampian and Aberdeenshire Council. If robust processes are not in place there is a risk that expenditure is miscoded and IJB accounts are under/over-stated. | <ul style="list-style-type: none"> Chief Finance Officer is also a senior finance officer in a partner body. Regular/robust budget monitoring. | and NHS Grampian) with regard to expenditure incurred, coding structures and completeness and accuracy of data. |

Wider dimension issues and risks

| | | |
|---|---|--|
| <p>3 Financial management</p> <p>The IJB is working with partners to manage an estimated budget shortfall of £4m. This is in line with the previous year and partners are already committed to providing an additional contribution. Owing to the demand led nature of several budgets, there is a risk that the shortfall is higher and so increasing the pressure on partners,</p> | <ul style="list-style-type: none"> Regular budget monitoring. Finance reports are regularly provided to the board. Involvement of the Board and management in budget monitoring. Budget settlement and split regarding the overspend to be provided to the board | <ul style="list-style-type: none"> Confirmation of funding agreements, payments made, and any balance left. Evaluate service auditor assurances around completeness of income and expenditure. |
| <p>4 Governance and transparency</p> <p>It is difficult to measure progress against plans due to the absence of outcomes, targets and milestones.</p> <p>While the board has a five year financial plan and reports annually on its workforce, more needs to be done in align plans with strategic priorities.</p> <p>There is a risk that the board is unable to demonstrate that it has the right resources in place to deliver sustainable change and improve outcomes.</p> | <ul style="list-style-type: none"> Strategic Plan 2019-22 currently being developed. Development sessions will consider appropriate targets and outcomes. | <ul style="list-style-type: none"> Assess developments during the year and comment in the Annual Audit Report. |

Source: Audit Scotland

Reporting arrangements

- 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.
- 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.
- We will provide an independent auditor's report to Aberdeenshire IJB and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

| Audit Output | Target date | Committee Date |
|--|-------------------|------------------------|
| Annual Audit Report including ISA 260 requirements | 30 September 2019 | August 2019 (date tbc) |
| Independent Auditor's Report | 30 September 2019 | August 2019 (date tbc) |

Source: Audit Scotland

Audit fee

8. The proposed audit fee for the 2018/19 audit of Aberdeenshire IJB is £25,000 (2017/18 £24,000). In determining the audit fee, we have taken account of the risk exposure of the IJB, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 28 June 2019.
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 out with our planned audit activity.

Responsibilities

Audit Committee and Chief Finance Officer

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.
11. The audit of the annual accounts does not relieve management or the IJB Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standards.
13. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the 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

14. 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 in accordance with applicable law and the 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom (the 2018/19 Code) of the state of the affairs of the IJB as at 31 March 2019 and of the income and expenditure of the board for the year then ended
 - have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2018/19 Code
 - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the Financial Statements

16. We also review and report on other information published within the Financial Statements 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 read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

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. We calculate materiality at different levels as described below. The calculated materiality values for Aberdeenshire Integration Joint Board are set out in Exhibit 3.

Exhibit 3 Materiality values

| Materiality | 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 1.5% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts. | £4.8m |
| 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 75% of planning materiality. | £3.6m |
| 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 5% of planning materiality or maximum of £250k. | £250k |

Source: Audit Scotland

Timetable

19. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. [Exhibit 4](#) includes an agreed timetable.

Exhibit 4 Annual accounts timetable

|  Key stage |  Date |
|---|--|
| Agreement of balances for NHS Grampian's group accounts consolidation | 31 May 2019 |
| Consideration of unaudited financial statements by those charged with governance | 19 June 2019 |
| Latest submission date for unaudited accounts and complete working papers package | 21 June 2019 |
| Latest date for final clearance meeting with the Chief Finance Officer | 9 August 2019 |
| Issue of letter of representation and proposed independent auditor's report | 12 August 2019 |
| Agreement of audited unsigned financial statements; | 21 August 2019 |
| Issue of Annual Audit Report to those charged with governance | 21 August 2019 |
| Independent auditor's report signed | 28 August 2019 |

Source: Audit Scotland

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. Internal audit is provided by David Hughes, Chief Internal Auditor at Aberdeenshire Council

Adequacy of internal audit

21. We are also the auditors for Aberdeenshire Council and consequently, we have taken assurance from our review of internal audit carried out in connection with our audit of the council. We concluded that the internal audit function operates in accordance with Public Sector Internal Audit Standards.

22. Sharing arrangements have been put in place between the internal auditors of the IJB, Aberdeenshire Council and NHS Grampian. Where there is a direct relationship between the internal audit work carried out in the partner bodies and the IJB, the relevant report will be shared with the IJB audit committee for information.

23. From our initial review of the internal audit plan, we intend to place formal reliance on the review of financial assessments which relates to charging adults for care services provided. As part of our wider scope responsibilities, we will also consider internal audit's work in the following areas:

- budget setting, monitoring and financial reporting
- business continuity arrangements.

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](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

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 the board'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
- appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

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 Aberdeenshire IJB:

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

Governance and transparency

28. Governance and transparency are 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 Aberdeenshire IJB:

- can demonstrate that the governance arrangements in place are appropriate and operating effectively
- has effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- has 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:

- provide evidence that it is demonstrating value for money in the use of its resources.
- demonstrate that there is a clear link between money spent, output and outcomes delivered.
- demonstrate that outcomes are improving and there is sufficient focus on improvement and the pace of it.

Independence and objectivity

30. Auditors appointed by the Accounts Commission 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.

31. The engagement lead (appointed auditor) for Aberdeenshire IJB 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 Aberdeenshire Integration Joint Board

Quality control

32. 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.

33. 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 Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and has commissioned the Institute of Chartered Accountants of Scotland to carry out external quality reviews.

34. 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.

Audit Team

35. The local audit team will be led by Anne MacDonald, Senior Audit Manager, who will be responsible for day to day management of the audit and will be your primary contact. Details of the team’s experience and skills are provided in Exhibit 6.

Exhibit 6

Core Audit Team

| Name | Experience |
|---|---|
| Gillian Woolman FCA CPFA Audit Director (and certifying auditor) | Gillian has worked in the public and private sector, internal and external audit. She is the lead Audit Director for equality and diversity matters at Audit Scotland and holds a mixed portfolio of audits. She is currently chair of the regional strategic board for the Institute of Chartered Accountants in England and Wales and Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). |
| Anne MacDonald Senior Audit Manager | Anne has many years of public sector experience, mainly in local government, covering both financial audit and best value audit. She has a lead role for local government matters in Audit Scotland which includes reporting emerging issues to the Accounts Commission. |
| Mark Johnstone CPFA Senior Auditor | Mark has over 20 years public sector audit experience, across the local government, central government, health and further education sectors. He contributed to the Accounts Commission’s Local Government Overview in 2017/18. |
| Adebayo Ladejobi Professional Trainee | Adebayo qualified as a Chartered Accountant in Nigeria. He joined Audit Scotland’s graduate training programme in 2015 and is currently working towards his ICAS qualification. |

Source: Audit Scotland

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