

Aberdeenshire Integration Joint Board

Progress Report - 2018/19 Audit



 AUDIT SCOTLAND

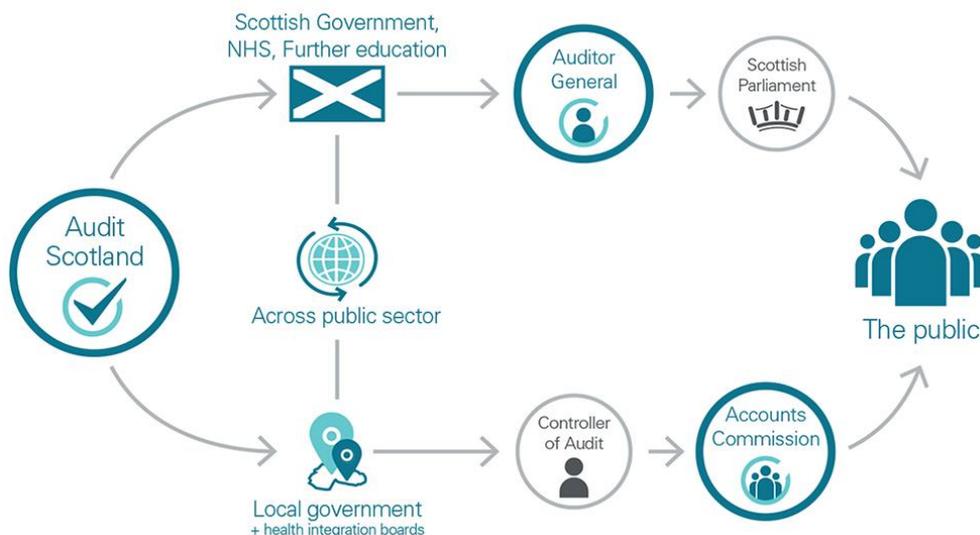
Prepared for Aberdeenshire IJB Audit Committee

June 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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Planned work and other matters

1. This report aims to provide an update of progress with the 2018/19 audit of Aberdeenshire Integration Joint Board (IJB) including action on agreed recommendations from the 2017/18 audit.
2. Our roles and responsibilities were set out in our 2018/19 Annual Audit Plan which was considered by the Audit Committee in March 2019

Progress against 2018/19 audit plan

3. In agreeing our 2018/19 fee of £25,000 for the audit, we agreed to deliver the outputs set out in [Exhibit 1](#). A significant element of our work relates to gathering the assurances required to support our opinions on the IJB's annual accounts.

Exhibit 1: 2018/19 Audit outputs

Audit Output	Target date for Audit Committee	Actual date	Complete	Comments
Communication of audit matters to those charged with governance - Annual Report on the 2018/19 audit	21 August 2019			
Independent auditor's report on the annual accounts	By 26 August 2019			

Source: Audit Scotland

Review of financial systems

4. International Standards on Auditing (ISAs) require us to consider a body's key financial systems and internal financial controls. The IJB's annual accounts are produced from the financial systems of its partners, Aberdeenshire Council and NHS Grampian. Our assessment of these financial systems and key internal controls is therefore carried out as part of the audits of the partner bodies and assurances are provided to us as the IJB auditor. In practical terms, my team is responsible for the audits of the IJB, Aberdeenshire Council and NHS Grampian which eases the sharing of appropriate information.
5. As with the internal audit arrangements, our findings are reported to the partner body for action and subsequently shared with the IJB. We have recently reported to Aberdeenshire Council on the Care First social care case management system.

Care First Social Care Case Management system (Care First)

6. Care First records individual care agreements including details of care packages to be provided, the periods over which support is required, associated costs and details of the care providers. Approximately £78m, representing 38,000 invoices, was processed through Care First in 2018/19. While the focus, quite rightly, is on the provision of appropriate care and support to a complex caseload including vulnerable people and many who experience periods of crisis, it is also important that the case management system provides robust, relevant data at all times.
7. This system also acts as a purchase ordering process against which care provider invoices are matched as part of the process of approving an invoice for payment. At the year end, this system should produce the figure for care provided where the care provider's invoice is awaited. In practice however, the finance team have traditionally made manual adjustments to the figures to exclude cancelled/amended care packages. While we were satisfied with the amended figure included in the 2017/18 accounts, we highlighted the need for improvement in managing the system. There are ongoing risks when reliance cannot be placed on figures it generates.
8. We considered these matters further as part of the current year's audit and found that:
 - a significant number of cases had been reversed to remove cancelled and amended packages bringing the caseload more up to date. More formal arrangements now need to be put in place to ensure that the system is routinely kept up to date.
 - the estimate included in the 2017/18 accounts for unbilled care was accurate as the total for invoices subsequently received was broadly as expected.
 - the majority of payments (for amounts accrued at the year end) were made between August and November 2018, some 5 to 8 months after the year end and an even longer period after the relevant care had been provided. Based on a sample of payments, the council received invoices in a timely manner, but payment was delayed due to differences between the charges raised on invoices compared with the amounts agreed in care agreements.
9. Given the nature of the services involved and the current economic climate, we have encouraged the council to review its arrangements to ensure it is not adversely impacting on the cash flow of businesses it is depending on. We have made recommendations to improve the arrangements for reviewing and prioritising outstanding invoices and improving the quality of data held in the system. A working group is to be established to take these matters forward and we await further details on the remit and timescales.

2017/18 Follow up

10. On conclusion of our 2017/18 audit, we made 4 recommendations through our annual audit report. [Exhibit 2](#) provides an update on progress against each of these recommendations and we will comment further in our 2018/19 annual report in the summer.

Exhibit 2: Progress against 2017/18 audit recommendations

Action Point	Recommendation	Management Action agreed/ Responsible officer	Action taken
1	A Code of Governance should be formally approved by the Audit Committee. Thereafter, arrangements should be put in place for an annual self-evaluation of governance arrangements and for this to be formally considered by the Audit Committee as part of the process of approving the Annual Governance Statement.	A Code of Governance will be drafted and reported to the IJB Audit Committee for approval and then self-evaluated as part of the annual accounts process. Chief Officer 31 December 2018	A code has not yet been developed. As last year, the annual governance statement will describe the self-assessment activity undertaken.
2	The Audit Committee should consider the results of the annual review of governance arrangements before approving the Annual Governance Statement. In addition, there is scope for it to monitor the effectiveness of risk management arrangements and any other matters identified by a review of its operation to date	A review of the scope of responsibilities is underway by the IJB Audit Committee. The Audit Committee will discuss this in September 2018, arrange a Workshop (s) as necessary and report back to the IJB before the end of the financial year. Chief Finance Officer 31 March 2019	Committee members and officers met for an informal session in November 2018 to review the committee's terms of reference and consider changes in membership. The board approved the committee's revised terms of reference in December 2018. Membership of the committee was refreshed and now includes voting/non-voting members in the scrutiny process.
3	Strategic planning needs to be clearer in terms of priorities, outcomes and targets to enable progress against milestones to be regularly reported and monitored. This will also assist the future preparation of the Annual Performance Report.	Work is currently in progress to develop the Strategic Plan 2019-22. In addition, development sessions will consider appropriate targets and outcomes. Chief Officer 31 March 2019	The draft 2019-2024 Strategic Plan was considered by the IJB in October 2018. It was agreed to delay final publication until summer 2019 to allow wider consultation and action on feedback received.
4	Longer term workforce planning should be progressed alongside the board's strategic plan to support the development of integrated teams and to inform plans for service redesign	These matters have been the subject of a number of discussions that now need to be formalised. Work around the workforce plan and the strategic plan needs to be aligned. Chief Officer 31 March 2019	Workforce matters are a significant element of the strategic plan but so far, there is no formal revision of the IJB's workforce plan.

2018/19 annual audit plan

11. In March 2019, the audit committee considered a draft of our Annual Audit Plan. It was in draft at that stage as the audit committee had yet to agree its timetable of meetings. The agreement of a timetable with us for the annual accounts process is an important element of our annual planning process. The committee has now agreed a timetable which accommodates the statutory requirements around the preparation and audit of the annual accounts and [Exhibit 3](#) sets out annual accounts timetable including those relevant committee dates.

Exhibit 3: Annual accounts timetable

 Key stage	 Date
Agreement of balances for NHS Grampian's group accounts consolidation	30 April 2019
Consideration of unaudited annual accounts by those charged with governance	19 June 2019
Latest submission date for unaudited accounts and complete working papers package	28 June 2019
Latest date for final clearance meeting with the Chief Finance Officer	5 August 2019
Agreement of audited unsigned annual accounts	9 August 2019
Issue of Annual Audit Report and audited accounts to the audit committee (those charged with governance) in advance of its meeting on 21 August 2019	14 August 2019
Independent auditor's report signed	By 26 August 2019

Source: Audit Scotland

12. The 2018/19 unaudited accounts will be considered by the committee on 19 June 2019. Materiality is used in evaluating the effect of identified misstatements on the audit, of any uncorrected misstatements on the annual accounts and in forming our opinions in the independent auditor's report. [Exhibit 4](#) sets out a reminder of our calculated materiality levels for this year's audit of Aberdeenshire IJB.

Exhibit 4: Materiality

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 2018 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.	£240k

Source: Audit Scotland

13. [Exhibit 5](#) sets out the key audit risks we identified for the 2018/19 audit.

Exhibit 5: 2018/19 Key audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks			
1	<p>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>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<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).
2	<p>Risk of incompleteness of expenditure</p> <p>The transactions for the IJB are recorded through the partner ledgers 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.</p>	<ul style="list-style-type: none"> Assurances from partner bodies on the completeness and accuracy of data. Chief Finance Officer is also a senior finance officer in a partner body. Regular/robust budget monitoring. 	<ul style="list-style-type: none"> Evaluate service auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian) with regard to expenditure incurred, coding structures and completeness and accuracy of data.
Wider dimension issues and risks			
3	<p>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.
4	<p>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 the board is unable to demonstrate 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.