
Report To: Inverclyde Integration Joint Board Audit Committee **Date:** 20 March 2018

Report By: Louise Long, Corporate Director (Chief Officer)
Inverclyde Health & Social Care Partnership **Report No:** IJBA/04/2018/LA

Contact Officer: Lesley Aird **Contact No:** 01475 715381

Subject: EXTERNAL AUDIT – ANNUAL AUDIT PLAN 2017/18

1.0 PURPOSE

- 1.1 The purpose of this report is to present the External Audit Plan for 2017/18, produced by Audit Scotland.

2.0 SUMMARY

- 2.1 Appendix 1 contains the Annual Audit Plan 2016/17 for the IJB prepared by the IJB's External Auditors, Audit Scotland.
- 2.2 The proposed audit fee for 2017/18 is £24,000 (£17,400 for 2016/17); this represents a 38% increase. A copy of correspondence from CIPFA on the matter is enclosed within this report.
- 2.3 Representatives from Audit Scotland will be in attendance at the meeting in order to present the Plan and answer any questions.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the IJB Audit Committee notes the Annual Audit Plan 2017/18.
- 3.2 It is recommended that the IJB Audit Committees notes the proposed Audit Fee and authorise officers to write to Audit Scotland direct, querying this and asking for an urgent review of the proposed fee.

Louise Long
Chief Officer

Lesley Aird
Chief Financial Officer

4.0 BACKGROUND

4.1 The IJB's External Auditors, Audit Scotland, have submitted their plan for the audit of the 2017/18 annual accounts. This plan is attached at Appendix 1.

4.2 The audit fee is set nationally by Audit Scotland based on an estimate of the number of days and work involved in the audit. For 2017/18 the proposed audit fee for each IJB is £24,000. This represents a £6.6k, 38% increase from the previous year.

4.3 The CIPFA CFO Section Group has discussed the proposed Audit Fees; a copy of the resultant advice from CIPFA is enclosed at Appendix 2. The Committee is asked to authorise officers to write to Audit Scotland direct, in line with the CIPFA email, to query the proposed fee. The main points which would be queried would be in line with the CIPFA email below, ie:

- Verification of additional input (staff time) to 17/18 audits would be welcome
- Expectation that the second year would have seen a reduction given the initial 'implementation' audits
- Most details in partner accounts (front line spend)
- Verification of audit fee reductions re partner audits (if IJB audit fees increasing, are partner (LA/NHS) fees decreasing)
- Note that Health & Sport Committee may question the increase, especially given the restrictions on CFO time
- The balance of cost of preparation vs cost of audit should be considered (albeit the audit fee covers more than just the annual accounts)
- Flat universal fee per IJB approach could be queried

4.4 Representatives from Audit Scotland will be in attendance at the meeting in order to present the Plan and answer any questions.

5.0 IMPLICATIONS

5.1 FINANCE

There are no financial implications arising from this report.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report £000	Virement From	Other Comments
N/A					

Annually Recurring Costs / (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact £000	Virement From	Other Comments
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N/A					
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LEGAL

5.2 There are no specific legal implications arising from this report.

HUMAN RESOURCES

5.3 There are no specific human resources implications arising from this report.

EQUALITIES

5.4 There are no equality issues within this report.

Has an Equality Impact Assessment been carried out?

	YES (see attached appendix)
√	NO – This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required.

5.5 How does this report address our Equality Outcomes

There are no Equalities Outcomes implications within this report.

Equalities Outcome	Implications
People, including individuals from the above protected characteristic groups, can access HSCP services.	None
Discrimination faced by people covered by the protected characteristics across HSCP services is reduced if not eliminated.	None
People with protected characteristics feel safe within their communities.	None
People with protected characteristics feel included in the planning and developing of services.	None
HSCP staff understand the needs of people with different protected characteristic and promote diversity in the work that they do.	None
Opportunities to support Learning Disability service users experiencing gender based violence are maximised.	None
Positive attitudes towards the resettled refugee community in Inverclyde are promoted.	None

5.6 **CLINICAL OR CARE GOVERNANCE IMPLICATIONS**

There are no governance issues within this report.

5.7 **NATIONAL WELLBEING OUTCOMES**

How does this report support delivery of the National Wellbeing Outcomes

There are no National Wellbeing Outcomes implications within this report.

National Wellbeing Outcome	Implications
People are able to look after and improve their own health and wellbeing and live in good health for longer.	None
People, including those with disabilities or long term conditions or who are frail are able to live, as far as reasonably practicable, independently and at home or in a homely setting in their community	None
People who use health and social care services have positive experiences of those services, and have their dignity respected.	None
Health and social care services are centred on helping to maintain or improve the quality of life of people who use those services.	None
Health and social care services contribute to reducing health inequalities.	None
People who provide unpaid care are supported to look after their own health and wellbeing, including reducing any negative impact of their caring role on their own health and wellbeing.	None
People using health and social care services are safe from harm.	None
People who work in health and social care services feel engaged with the work they do and are supported to continuously improve the information, support, care and treatment they provide.	None
Resources are used effectively in the provision of health and social care services.	None

6.0 CONSULTATION

6.1 The draft plan was circulated by Audit Scotland to the Chief Financial Officer for comment and feedback and shared with the Chief Officer.

7.0 BACKGROUND PAPERS

7.1 None.

Inverclyde Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

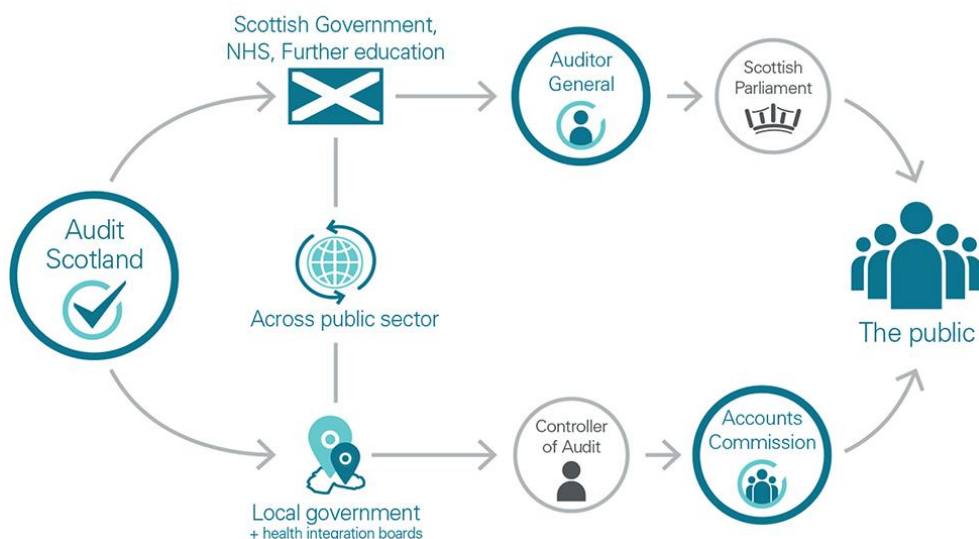
Prepared for Inverclyde Integration Joint Board

February 2018

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

2. 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

3. 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 Inverclyde 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

2017/18 Key audit risks

Audit Risk	Source of 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>Agreement of balances and transactions to NHS Greater Glasgow & Clyde and Inverclyde Council financial reports/ correspondence.</p> <p>Service auditor assurances will be obtained from the auditors of NHS Greater Glasgow & Clyde and Inverclyde Council over the completeness, accuracy and allocation of the income and expenditure.</p>
Wider dimension risks		
<p>2 Financial sustainability</p> <p>The IJB does not currently prepare medium to long term financial plans. There is consequently a risk that the IJB is not aware or adequately prepared for future challenges and financial constraints in the medium to long term.</p>	<p>The IJB is in the process of completing longer term financial plans. These are due to be presented to the Board in spring/summer 2018.</p>	<p>Review medium to long term financial planning assumptions.</p> <p>Review development of medium to long term financial plans.</p>

Reporting arrangements

4. 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.
5. 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.
6. We will provide an independent auditor's report to Inverclyde Integration Joint Board, and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable 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

2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Annual Audit Plan	March 2018	March 2018
Annual Audit Report	September 2018	September 2018
Independent Auditor's Report	September 2018	September 2018

Audit fee

7. The proposed audit fee for the 2017/18 audit of Inverclyde Integration Joint Board is £24,000 (2016/17 - £17,400). In determining the audit fee we have taken account of the risk exposure of Inverclyde Integration Joint Board, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. However the increase from the prior year is not due to specific risks but relates to a central review which recognised that the audit requirements for integration joint boards were higher than initially expected. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2018.

8. 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

Audit Committee and Accountable Officer

9. 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.

10. The audit of the financial statements does not relieve management or the Inverclyde Integration Joint Board Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

13. 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 Inverclyde Integration Joint Board 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 Inverclyde 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.

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

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

Materiality

15. 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 opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for Inverclyde 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 2018 based on the latest budget proposals for 2017/18.	£1.5 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 75% of planning materiality.	£1.1million
Reporting threshold (i.e. clearly trivial) – 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 3% of planning materiality.	£45,000



17. 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 Audit Committee.

Timetable

18. 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 Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	June 2018
Latest submission date of unaudited annual accounts with complete working papers package	June 2018
Latest date for final clearance meeting with the Chief Financial Officer	August 2018
Issue of letter of representation and proposed independent auditor's report	September 2018
Agreement of audited unsigned annual accounts	September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	September 2018
Independent auditor's report signed	September 2018

Internal audit

19. 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 Inverclyde Council.

Adequacy of internal audit

20. Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). We will consider the work of internal audit throughout the year to inform our audit processes.

Audit dimensions

21. 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

22. The appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

23. 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

- whether Inverclyde Integration Joint Board can demonstrate the affordability and effectiveness of funding and expenditure decisions it has made.

24. The first two years of the budget setting process has resulted in single year budget proposals. To provide greater assurance over the medium term funding arrangements, the Board should consider preparing a budget spanning two to three years.

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:

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

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:

- whether Inverclyde Integration Joint Board can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, NHS Greater Glasgow and Clyde and Inverclyde Council).
- 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

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

Strategic plan for the five year appointment

28. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 1

Strategic plan

Dimension	2017/18	2018/19	2019/20 to 2020/21
Financial sustainability	Financial planning		
Financial management	Financial governance and resource management		
Governance and transparency	Leadership, governance and scrutiny		
Value for money	Operational efficiency		

Independence and objectivity

29. 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 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

30. The engagement lead for Audited Body is Brian Howarth, Assistant Director. Auditing and ethical standards require the appointed auditor Audit Scotland 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 Inverclyde Integration Joint Board.

Quality control

31. 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.

32. 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

33. 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.

Adding value

34. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Audited Body has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Inverclyde Integration Joint Board

Annual Audit Plan 2017/18

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From: Davies, Gareth
Sent: 08 February 2018 17:16
Subject: IJB CFO Section - Audit Fees

Dear CFO

The Chair has advised that, given that the Audit Scotland request letters were sent to each IJB and sought responses from each IJB, it would be appropriate for each IJB to respond specifically to Audit Scotland.

CFOs may wish to consider whether a particular due process, for example Chief Officer or Board approval, would be appropriate.

CFOs will use their own judgement in determining the extent to which the proposed fees for this year may be open to amendment, and potentially the extent to which any response may assist in setting a clear expectation on the part of the IJB regarding 2018/19 fee levels.

For ease of reference, if CFOs wish to refer to any of the following, the points below were raised at the last CFO Section meeting in relation to the fee request:

- Verification of additional input (staff time) to 17/18 audits would be welcome
- Expectation that the second year would have seen a reduction given the initial 'implementation' audits
- Most details in partner accounts (front line spend)
- Verification of audit fee reductions re partner audits (if IJB audit fees increasing, are partner (LA/NHS) fees decreasing)
- Note that Health & Sport Committee may question the increase, especially the given restrictions on CFO time
- The balance of cost of preparation vs cost of audit should be considered (albeit the audit fee covers more than just the annual accounts)
- Flat universal fee per IJB approach could be queried

Additionally some comments have been made that the late notification of the proposed increase, being announced some 9 months into the financial year, is not helpful. Arguably it does not appear to be indicative of forward financial planning by Audit Scotland, and the requirement to fund a significant fee increase at a late stage is not supportive of the financial planning, monitoring and control processes of the IJBs.

I trust that this is helpful.

Many thanks - Gareth