

# Scottish Borders Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Scottish Borders Integration Joint Board

March 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 of Scottish Borders Integration Joint Board ("the IJB") 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.

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 management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the IJB. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

4. The IJB uses the corporate financial systems of Scottish Borders Council and NHS Borders, and relies on the systems of internal control in place at those bodies that support their compliance with policies and procedures. As part of our audit we seek assurances from the auditors of Scottish Borders Council and NHS Borders over the adequacy of arrangements in place.

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Although we have not identified any specific risks of management override relating to the IJB, 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>Service auditor assurances will be obtained from the audits of Scottish Borders Council ("the council") and NHS Borders ("the health board") over the completeness, accuracy and allocation of the income and expenditure.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>2 Hospital Set Aside Sum</b></p> <p>Arrangements for the sum set aside for hospital acute services under the control of the IJB are not yet operating as required by legislation and statutory guidance. A notional figure should be agreed and included in the financial statements.</p> <p>There is a risk that the sum recorded as set aside for acute services in the annual accounts does not reflect actual hospital use.</p>	<p>Ongoing discussions with NHS Borders ensuring that set aside is fully disclosed in the 2017/18 financial statements.</p>	<p>Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</p>
<p><b>3 Chief Financial Officer</b></p> <p>There is currently no Chief Finance Officer (CFO) in post. The IJB has agreed that the CFO role will be advertised and it is expected that a new CFO will be appointed from April 2018.</p> <p>There is a risk that financial reporting to the IJB and preparation of the annual accounts could be adversely affected by the absence of a permanent CFO.</p>	<p>Arrangements in place to appoint new CFO.</p> <p>CFO responsibilities are currently being split between the Chief Finance Officer at Scottish Borders Council and the Director of Finance at NHS Borders.</p> <p>Ongoing monitoring and reporting of IJB budget to the board during the year.</p>	<p>Ongoing meetings and discussions with officers.</p>
<b>Wider dimension risks</b>		
<p><b>4 Financial sustainability</b></p> <p>The latest financial monitoring report presented to the IJB in February 2018 reported a projected outturn of £175.4m against a revised budget of £166.6m, an overspend of £8.8m. This overspend relates mostly to healthcare services and a recovery plan has been prepared setting out how the forecast overspend will be addressed in order to achieve a breakeven position.</p> <p>There is a risk that overspends may require additional payments from Scottish Borders Council and NHS Borders and that there may be difficulties in producing a balanced outturn in future years.</p>	<p>Ongoing monitoring of the IJB budget.</p> <p>Direction of funding by the IJB to help address budget pressures.</p> <p>Strategic transformation programme being developed which will help achieve financial sustainability in the longer term.</p>	<p>Ensure budget monitoring is robust and accurately reflects the financial position.</p> <p>Confirmation of agreement of funding and balances with host bodies</p>
<p><b>5 Chief Officer</b></p> <p>The IJB has had four Chief Officers since its initial formation in February 2016, including one</p>	<p>Permanent Chief Officer now in post.</p>	<p>Monitor arrangements during the year through discussion with officers and attendance at meetings.</p>

Audit Risk	Source of assurance	Planned audit work
<p>interim Chief Officer. The Chief Officer is a key role, responsible for the preparation, implementation and reporting on the Strategic Commissioning Plan as well as overseeing operational delivery of delegated services.</p> <p>There is a risk that the high turnover in this key governance role has delayed delivery of the IJB's Commissioning Plan.</p>		<p>Comment on effectiveness of arrangements in Annual Audit Report.</p>
<p><b>6 Care Services</b></p> <p>The Care Inspectorate and Healthcare Improvement Scotland published a joint report on adult health and social care services in the Scottish Borders in September 2017. This report evaluated three out of nine quality indicators as being 'weak' and identified thirteen recommendations for improvement.</p> <p>There is a risk that the IJB is not ensuring that adequate services are being delivered.</p>	<p>Action plan agreed with the Care Inspectorate and Healthcare Improvement Scotland in response to the recommendations in the report.</p>	<p>Monitor follow up to the agreed action plan.</p>

## Reporting arrangements

**5.** 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](http://www.audit-scotland.gov.uk).

**6.** 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.

**7.** We will provide an independent auditor's report to Scottish Borders IJB, and Accounts Commission setting out our opinions on the annual accounts. We will also provide them 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 Date
Annual Audit Report	3 September 2018	17 September 2018
Independent Auditor's Report	18 September 2018	N/A

## Audit fee

**8.** The audit fee for the 2017/18 audit of Scottish Borders IJB is £24,000. In determining the audit fee we have taken account of the risk exposure of Scottish Borders 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 financial statements, with a complete working papers package on 30 June 2018.

**9.** 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 Management

**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 financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**12.** 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.

**13.** 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

**14.** 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 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 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

**16.** 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.

**17.** We calculate materiality at different levels as described below. The calculated materiality values for Scottish Borders Integration Joint Board are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – 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 budget for 2017/18.	£1.72 million
<b>Performance materiality</b> – 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.	£1.21 million
<b>Reporting threshold (i.e. clearly trivial)</b> – 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 2% of planning materiality.	£0.03 million

18. 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

19. 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
Agreement of year end balances with NHS Borders and Scottish Borders Council	By 31 May 2018
Consideration of unaudited financial statements by the IJB Audit Committee	11 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2018
Latest date for final clearance meeting with Chief Financial Officer	31 August 2018
Agreement of audited unsigned annual accounts	17 September 2018
Issue of Annual Audit Report including ISA 260 requirements to those charged with governance	17 September 2018

**Key stage****Date**

Independent auditor's report signed

18 September  
2018**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 for the Integration Joint Board is provided by the internal audit service at Scottish Borders Council and is overseen by the Chief Officer Audit & Risk at the council who is the appointed Chief Internal Auditor for the IJB.

**Adequacy of Internal Audit**

**21.** Our review of internal audit concluded that the internal audit function operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

**Areas of Internal Audit reliance**

**22.** In respect of our wider dimension audit responsibilities we plan to consider areas of internal audit work reported in the Internal Audit Report 2017/18 for the IJB.

**Audit dimensions**

**23.** 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



**24.** 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

**25.** 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 short term (less than two years) 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 longer term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the IJB can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

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

### Governance and transparency

**27.** 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

**28.** 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.
- the IJB can demonstrate that there is a clear link between money spent, output and outcomes delivered.

- the IJB can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

## Independence and objectivity

**29.** 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 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 Scottish Borders IJB is Gillian Woolman, 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 Scottish Borders IJB.

## 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 has recently secured new 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 Scottish Borders IJB. 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 Scottish Borders IJB 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.

# Scottish Borders Integration Joint Board

## Annual Audit Plan 2017/18

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