

# Aberdeenshire Integration Joint Board

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Members of Aberdeenshire 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.

# Contents

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<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Reporting arrangements	6
Audit fee	7
Responsibilities	7
<b>Audit scope and timing</b>	<b>8</b>
Financial statements	8
Internal audit	10
Audit dimensions	10
Independence and objectivity	11
Quality control	12
Audit Team	12

# 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. 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 Aberdeenshire Integration Joint Board (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](#). Our consideration of the management assurances and findings from our planned work will, collectively, provide assurances to assist us in reaching conclusions on each of these matters.

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Completeness of expenditure</b></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"> <li>Assurances from partner bodies on the completeness of data. Chief Finance Officer is also the Head of Finance of Aberdeenshire Council.</li> <li>Regular budget monitoring</li> </ul>	<ul style="list-style-type: none"> <li>Service auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian) with regard to expenditure incurred, coding structures and completeness of data.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p><b>3 Agreement of balances with partners</b></p> <p>Income, expenditure and year end balances will require to be agreed between the IJB and partner bodies, Aberdeenshire Council and NHS Grampian. As 2016/17 is the first year the IJB is operational, there is a risk that procedures for agreement of balances is not in place and therefore balances are not agreed by partners by the relevant dates and thus, delay delivery of the financial statements and impact on partners' group accounts.</p>	<ul style="list-style-type: none"> <li>• Regular budget monitoring</li> <li>• Officers review the guidance issued by IRAG and LAASAC.</li> <li>• Timetable agreed between NHS Grampian, Aberdeenshire Council and IJB for the agreement of balances. Dry run of NHS Group consolidation to be undertaken in March 2017.</li> </ul>	<ul style="list-style-type: none"> <li>• Continued engagement with officers prior to the accounts being prepared to ensure that the relevant information is disclosed and the timetable is met.</li> <li>• Service auditor assurances from the auditors of partner bodies (Aberdeenshire Council and NHS Grampian) with regard to income and expenditure for the year and balances held at 31 March 2017.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>4 Longer term financial planning</b></p> <p>The IJB has so far only approved a one year budget. With single year financial settlements and elements of the settlement requiring ongoing clarification with the Scottish Government, the opportunity for longer term financial planning has been challenging. With the focus on annual budgets, there is a risk that the integration board will not be able to align financial planning with strategic planning.</p>	<ul style="list-style-type: none"> <li>• From 2017/18, a medium term financial strategy will be prepared to enable the IJB to have cognisance of available financial resources over a 5 year period.</li> <li>• Involvement of the board and management in budget planning workshops and ongoing budget monitoring arrangements</li> </ul>	<ul style="list-style-type: none"> <li>• Discussion with officers to understand the background to the strategic planning approach and plans for integration and wider community involvement</li> <li>• Ongoing monitoring of financial plans, assumptions and estimates and commentary in our Annual Audit Report.</li> </ul>
<p><b>5 Budget overspends</b></p> <p>The IJB has experienced overspends during the year on a range of health and social care budgets. Overall, however a surplus is forecast for 2016/17 due to additional Scottish Government monies received in the year to meet living wage obligations and other commitments. Owing to the demand led nature of several budgets, there are challenges ahead in delivering financial balances if efficiencies are not achieved.</p>	<ul style="list-style-type: none"> <li>• Involvement of the board and management in budget planning workshops and ongoing budget monitoring arrangements</li> <li>• Budget setting reports, financial monitoring and other financial updates considered by the board.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of budget setting reports, financial monitoring and other financial updates considered by the Board.</li> <li>• Review of outturn against planned efficiencies</li> </ul>
<p><b>6 Measuring the shift in resources</b></p> <p>The IJB approved a 3 year strategic plan covering 2016-19 and this is supported by an annual commissioning plan</p>	<ul style="list-style-type: none"> <li>• Developments in producing workforce planning</li> <li>• performance framework - measuring national health and wellbeing priorities</li> <li>• Locality planning</li> </ul>	<ul style="list-style-type: none"> <li>• Review of strategic plan, commissioning plan and monitoring reports.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p>which continues to evolve. While the plan sets out the IJB's strategic priorities, associated tasks and provides links to funding streams, at this stage a workforce plan has only recently been developed. There is a risk that the IJB will not be able to demonstrate measurable progress in integrating services and shifting resources.</p>		
<p><b>7 Effectiveness of the board</b></p> <p>With existing vacancies on the board and local government elections this year, there is a risk that the IJB's progress will lose momentum until new members have been inducted. While this is the case across local government, IJBs, as relatively new bodies, may experience a more significant impact.</p>	<ul style="list-style-type: none"> <li>• Development of an appropriate induction and training programme for new members of the board.</li> </ul>	<ul style="list-style-type: none"> <li>• Review the board's arrangements for the induction and training of new board members.</li> <li>• Follow up work on our 2011 national report on the role of boards</li> </ul>

## 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](http://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 Aberdeenshire IJB and the Accounts Commission summarising the results of the audit of the annual accounts. We will also provide the IJB and the 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.

**6.** Audit Scotland conducts a national programme of performance audit studies. The 2016/17 programme includes the second report of a three stage approach looking at progress in the development of health and social care integration. Local auditors will complete a data return for submission by June 2017.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Performance audit data return - health and social care integration	June 2017	N/A
Annual Audit Report including ISA 260 requirements	18 August 2017	30 August 2017
Signed Independent Auditor's Report	1 September 2017	Audited accounts to be considered for approval on 30 August 2017

### Audit fee

7. The audit fee for the 2016/17 audit of Aberdeenshire IJB now that it is operational is £17,470. (2015/16 non-operational IJB fee - £5,000) In determining the audit fee we have taken account of the risk exposure of Aberdeenshire Integration Joint Board, the planned management assurances in place and the level of reliance we plan to take from the audits of NHS Grampian and Aberdeenshire Council, as well as 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.

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 Chief Finance 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 Audit Committee, as those charged with governance, of their responsibilities.

11. Scottish Government integration guidance recommended that the IJB audit committee (and partner audit committees) receive a post integration report within one year of establishment of the IJB to evaluate the actual risk and financial performance against the pre-integration assumptions, performance on integration milestones, lessons learnt and assess whether the IJB is on schedule to deliver the long-term benefits.

#### Appointed auditor

12. 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.

13. 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

**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 Aberdeenshire 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 Aberdeenshire 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 in accordance with applicable law and the 2016/17 Code of the state of the affairs of the Aberdeenshire IJB as at 31 March 2017 and of the income and expenditure of the IJB for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- 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

**16.** Materiality defines the maximum error that we are prepared to accept and still conclude that 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 Aberdeenshire Integration Joint Board are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements



### 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 17 based on the revenue budget, as agreed at the March 2016 Board meeting.	£2.632m
<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.	£1.842m
<b>Reporting threshold</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 1% of planning materiality.	£ 30k



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 or equivalent.

#### 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 Board/Audit Committee dates:

### Exhibit 4

#### Financial statements timetable

 Key stage	 Date
Agreement of balances for NHS Grampian's group accounts consolidation	By 31/05/2017
Consideration of unaudited financial statements by those charged with governance	28/06/2017
Latest submission date of unaudited Aberdeenshire IJB's financial statements with complete working papers package	30/06/2017
Latest date for final clearance meeting with the Chief Finance Officer	11/08/2017
Agreement of audited unsigned financial statements;	16/08/2017
Issue of Annual Audit Report including ISA 260 report to those charged with governance	18/08/2017
Independent auditor's report signed	By 01/09/2017

## 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 David Hughes, Chief Internal Auditor at Aberdeenshire Council.

### Adequacy of Internal Audit

**20.** 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.

**21.** 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.

### Areas of reliance

**22.** To support our audit opinion on the financial statements we plan to take assurance from the following planned internal audit reviews in partner bodies:

- Care First System - Aberdeenshire adult social care
- Health and Social Care Integration - NHS Grampian

**23.** In respect of our wider dimension audit responsibilities we plan to consider internal audit's post integration review as described in paragraph 10 and the chief internal auditor's annual report.

## 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](#).

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## Exhibit 5

### Audit dimensions



### 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, and 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

**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 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

**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 Aberdeenshire 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 Aberdeenshire IJB can:

- provide evidence that it is demonstrating value for money in the use of 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

**29.** 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.

**30.** The engagement lead for Aberdeenshire Integration Joint Board is Gillian Woolman, Assistant Director. Auditing and ethical standards require Gillian 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

**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 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 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.

## Audit Team

**34.** 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. The audit team will be supplemented by additional staff during peak times.

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## Exhibit 6

### Core Audit Team

Name	Experience
Gillian Woolman FCA CPFA Assistant Director ( <i>and certifying auditor</i> )	<ul style="list-style-type: none"> <li>Gillian has worked in the public and private sector, internal and external audit, in the UK and overseas. She is the lead Assistant 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 Vice Chair of the Local Authority (Scotland) Accounts Advisory Committee (LASAAC).</li> </ul>
Anne MacDonald Senior Audit Manager	<ul style="list-style-type: none"> <li>Anne has many years of public sector experience, mainly in local government, covering both financial audit and best value audit.</li> </ul>
Steven Caldwell Professional Trainee	<ul style="list-style-type: none"> <li>Steven joined Audit Scotland's graduate training programme in October 2013 and is currently in the final stages of study towards achieving his ICAS qualification.</li> </ul>

# Aberdeenshire Integration Joint Board

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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