

Moray Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Moray 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.

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	5
Audit fee	6
Responsibilities	6
Audit scope and timing	7
Financial statements	7
Materiality	7
Internal audit	9
Audit dimensions	9
Independence and objectivity	11
Quality control	11
Adding value	11

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 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 staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Moray 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>Detailed testing of journal entries.</p> <p>Service auditor assurances will be obtained from the auditors of Moray Council and NHS Grampian over the completeness, accuracy and allocation of income and expenditure.</p> <p>Review of the confirmation of balances provided by NHS Grampian and Moray Council as part of the accounts preparation process.</p>

Audit Risk	Source of assurance	Planned audit work
<p>2 Acute hospital set-aside</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. There is a risk that the sum recorded in the accounts as set aside for acute services does not reflect actual hospital use.</p>	<p>A notional figure, based on 2016/17 activity levels, will be included in the 2017/18 accounts.</p> <p>A way forward will be sought through Heads of Finance meetings and Scottish Government guidance will be considered once available.</p>	<p>Monitor Scottish Government guidance on the treatment of set aside in the 2017/18 financial statements.</p> <p>Engage with officers to ensure that a robust mechanism is developed to quantify the IJB's set aside income and expenditure in future years.</p>

Wider dimension risks

<p>3 Financial sustainability</p> <p>The initial budget set for 2017/18 included a funding gap of £4 million. A revised budget was set in June 2017 which used all of the IJB's reserves to balance the budget.</p> <p>Based on the latest budget monitoring report covering the period to 31 December 2017, the IJB is forecast to overspend on core services by £2.1 million in 2017/18. Once strategic fund balances are taken into account a small underspend (£0.5 million) is projected.</p> <p>In our 2016/17 Annual Audit Plan we reported that the 2016/17 in year budget monitoring did not forecast the £2.7 million underspend achieved at the year-end. There is a risk that budget reports do not provide sufficient information to enable members to review in-year performance and take effective corrective action.</p> <p>We also reported last year that there are no medium to long term financial plans in place. Without medium term financial planning and sufficient reserves, there is a risk that the IJB is not financially sustainable and will be dependent on additional year-end funding from NHS Grampian and Moray Council.</p>	<p>The Chief Officer and Chief Financial Officer have engaged with the funding partners throughout their budget setting processes. Challenging settlements across the public sector have resulted in an overall reduction in funding to MIJB. The initial budget for 2018/19 will include a funding gap which will require immediate and continuous attention.</p> <p>Work on financial monitoring reports continues with the intent of providing a more informed process for the decision making of the IJB.</p> <p>A medium term financial strategy will be developed and will be integral to the review and update of the Strategic Plan.</p>	<p>Review the 2018/19 budget setting process.</p> <p>Continue to monitor the in-year and year end financial position and any additional funding required from NHS Grampian or Moray Council.</p> <p>Review the development of medium / long term financial planning.</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 officers to confirm factual accuracy.

6. We will provide an independent auditor's report to Moray Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Chief Officer 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.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit & Risk Committee date
Annual Audit Report	13 September 2018	27 September 2018
Signed Independent Auditor's Report	28 September 2018	N/A

Audit fee

7. The agreed audit fee for the 2017/18 audit of Moray Integration Joint Board is £24,000 (2016/17 £17,400). In determining the audit fee we have taken account of the risk exposure of Moray Integration Joint Board, 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 28 June 2018. 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.

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 & Risk Committee and Chief Financial 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 & Risk 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 Moray Integration Joint Board and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Moray 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 in accordance with applicable law and the 2017/18 Code of the state of the affairs of Moray Integration Joint Board as at 31 March 2018 and of the income and expenditure 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 2017/18 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

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 Moray 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 revenue budget for 2017/18.	£1.2 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 50% of planning materiality.	£0.6 million
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 2% of planning materiality.	£25,000

Source: Moray Integration Joint Board Revenue Budget 2017/18



17. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Audit & Risk 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 & Risk Committee dates.

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	28 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	28 June 2018
Latest date for final clearance meeting with Chief Financial Officer	31 August 2018
Agreement of unsigned audited annual accounts Issue of Annual Audit Report including ISA 260 report to those charged with governance	13 September 2018
Independent auditor's report signed	28 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 the in-house internal audit section at Moray Council overseen by the Internal Audit Manager.

Adequacy of Internal Audit

20. Our review of the council's internal audit section identified that an assessment against the Public Sector Internal Audit Standards (PSIAS) has not been undertaken and so internal audit cannot demonstrate compliance with these Standards (including reporting all areas of non-compliance to the Audit & Risk Committee). Plans are, however, in place for the internal audit function to be externally assessed in June 2018. An internal assessment is currently underway and the results will be reported within Internal Audit's 2017/18 Annual Report.

21. Despite the above, our assessment concluded that the internal audit section has the skills, experience and competence to enable us to place formal reliance on their work in the areas set out below. Once completed we will review the work undertaken to confirm that the work meets our requirements and that appropriate documentation standards and reporting procedures are in place.

Areas of Internal Audit reliance

22. There are no planned internal audit reviews that would impact on our financial audit work. In respect of our wider dimension audit responsibilities we plan to consider internal audit work on governance arrangements.

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 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 Moray Integration Joint Board has arrangements in place to ensure systems of internal control are operating effectively
- whether Moray Integration Joint Board can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how Moray Integration Joint Board has assured itself that its financial capacity and skills are appropriate
- whether Moray Integration Joint Board 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 Moray Integration Joint Board 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. Over our five year appointment, we will review, conclude and report on whether Moray Integration Joint Board can provide evidence that it is demonstrating value for money in the use of its resources and achievement of outcomes.

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 Moray Integration Joint Board is Brian Howarth, 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 Moray 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 Moray Integration Joint Board. 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 Moray Integration Joint Board 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.

Moray Integration Joint Board

Annual Audit Plan 2017/18

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

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk