

# West Dunbartonshire Integration Joint Board

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for West Dunbartonshire 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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# Contents

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

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 West Dunbartonshire Integration Joint Board (WDIJB). 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
<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>	<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>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>The expenditure of WDIJB is processed through the financial systems of West Dunbartonshire Council and NHS Greater Glasgow and Clyde. There is a risk that non IJB related expenditure is incorrectly coded to IJB accounts.</p>	<p>Robust budget monitoring.</p>	<p>Gaining assurances from the auditors of the council and health board over the accuracy, completeness and appropriate allocation of the IJB ledger entries.</p> <p>Carry out testing to confirm the accuracy and correct allocation of IJB transactions, and that they are recorded in the correct financial year.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>3. Hospital acute services (Set Aside)</b></p> <p>A notional figure for 2016/17 for the “set aside” for hospital acute services under the control of WDIJB was agreed with NHSGGC. This was a transitional arrangement for 2016/17 and no such arrangement has been agreed by the Scottish Government for 2017/18.</p> <p>The IJB needs to ensure its arrangements for calculating and reporting the set aside comply with the statutory guidance.</p>	<p>A working group has been formed which includes representatives from the six Glasgow IJBs, the Scottish Government and NHSGGC. Continued progress is being made and a dataset has been agreed.</p>	<p>The audit of the set aside will compare the IJBs accounting treatment with current accounting requirements. Non compliance will be reported.</p> <p>Continue to liaise with the CFO on progress of the working group.</p>
<b>Wider dimension risks</b>		
<p><b>4 Financial sustainability</b></p> <p>At the time of writing this plan, the IJB is projecting an overspend of £1.277million. £280,000 of the overspend relates to Health and is due mainly to the delay in achieving some previously approved savings and pressures on equipment for people discharged from hospital. £997,000 of the overspend relates to Children’s Services for the increased demand for foster places, kinship care and residential schools.</p> <p>The IJB had provisionally agreed to fund this from their unallocated reserves, bringing their unallocated reserves levels below the IJBs prudential reserve target.</p> <p>The IJB has planned to hold members’ sessions to focus on particular budget pressure areas.</p> <p>There are also no medium to long term financial plans in place. This is increasingly important as demand pressure increases, financial settlements continue to reduce and fundamental service redesign over a longer time frame becomes necessary.</p>	<p>Review ongoing budget monitoring reports to ensure they accurately reflect the position of the partnership.</p> <p>Obtain evidence of remedial action being taken on areas of overspend.</p>	<p>Review of the IJB’s final year end position.</p> <p>Review of financial and budgetary reports.</p> <p>Review progress of producing long term financial strategy and plans.</p> <p>The March 2018 financial outturn will be reported in the annual audit report.</p>
<p><b>5 Best Value</b></p> <p>IJBs should have arrangements in place to demonstrate how they are fulfilling their duty of Best Value.</p>	<p>This is within the planned scope of work to be completed by the IJB Chief Financial Officer and the Head of Strategy, Planning and Health</p>	<p>Review any available evidence of best value work being undertaken by the IJB and liaise with CFO.</p> <p>A position statement will be</p>

Audit Risk	Source of assurance	Planned audit work
There is currently no mechanism for formal review of BV arrangements in the IJB. There is a risk that opportunities for continuous improvement are missed.	Improvement.	reported in the annual audit report.
<p><b>6 Risk management arrangements</b></p> <p>At present, there is no process for WDIJB members, the CO and CFO to identify and register any interests.</p> <p>There is a risk that the IJB cannot demonstrate and assure itself and its partner bodies that it is being open and transparent in its organisational decision making.</p>	This is within the planned scope of work to be completed by the IJB Chief Financial Officer.	Review the progress of WDIJB in developing their risk management arrangements.

## 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](http://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 WDIJB, and Accounts Commission setting out our opinions on the annual accounts. We will provide the IJB 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	31 March 2018	14 March 2018
Annual Audit Report	30 September 2018	26 September 2018
Independent Auditor's Report	30 September 2018	26 September 2018

## Audit fee

7. The proposed audit fee for the 2017/18 audit of WDIJB is £24,000 (2016/17 £17,400). This is consistent with the fees for all of the Integration Joint Boards which are audited by Audit Scotland. The 2017/18 audit fee reflects the audit work required to ensure that the IJB accounts comply with disclosure requirements. In determining the audit fee, we have taken account of the risk exposure of the 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.

**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 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 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 West Dunbartonshire 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 WDIJB 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 Practice on Local Authority Accounting in the United Kingdom of the financial position of the West Dunbartonshire Integration Joint Board as at 31 March 2018 and its income and expenditure for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code
- whether they 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

**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 West Dunbartonshire 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 2017 based on the latest set of audited accounts (2016/17).	£1.817 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.	£1.272 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 1% of planning materiality, rounded to a memorable amount.	£20,000



**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 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	20 June
Latest submission date of unaudited annual accounts with complete working papers package	30 June
Latest date for final clearance meeting with Chief Financial Officer	7 September
Issue of letter of representation and proposed independent auditor's report	26 September
Agreement of audited unsigned annual accounts	26 September
Issue of Annual Audit Report including ISA 260 report to those charged with governance	26 September
Independent auditor's report signed	30 September

## 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 West Dunbartonshire Council overseen by the Audit and Risk Manager.

### Adequacy of Internal Audit

**20.** Our review of the internal audit service concluded that it has sound documentation standards and reporting procedures in place and it complies with the main requirements of the Public Sector Internal Audit Standards.

### Areas of Internal Audit reliance

**21.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Guardianship Cases (MHO involvement)
- Use of Care First functionality for financial management

## Audit dimensions

**22.** 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



Source: Code of Audit Practice

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**23.** 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

**24.** 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

**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 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

**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 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
- whether the board and Audit Committee members and staff demonstrate high standards of behaviour and receive sufficient training and development
- the quality and timeliness of financial and performance reporting.

### Best Value

**27.** IJBs should have arrangements in place to ensure that they can demonstrate how they are fulfilling their duty of Best Value. It is recognised that this is an area that IJBs need to develop. We are to monitor and report on progress in the annual audit report.

### Independence and objectivity

**28.** 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.

**29.** The engagement lead for Audited Body is Fiona Mitchell-Knight, 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 WDIJB.

## Quality control

**30.** 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.

**31.** 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.

**32.** 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

**33.** 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.

# West Dunbartonshire Integration Joint Board

## Annual Audit Plan 2017/18

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