

# Western Isles Integration Joint Board

Annual Audit Plan 2017/18



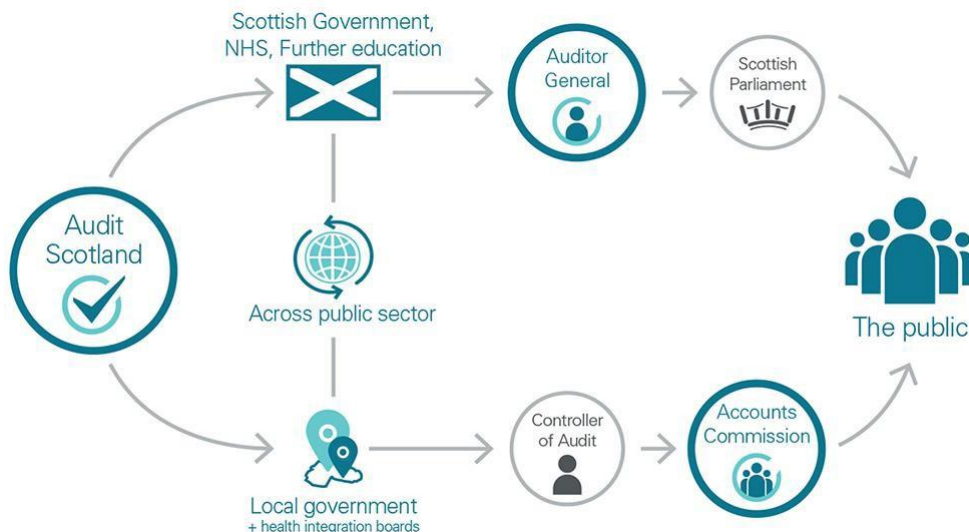
 AUDIT SCOTLAND

Prepared for Western Isles Integration Joint Board  
January 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        | 5        |
| Audit fee                     | 5        |
| Responsibilities              | 6        |
| <br>                          |          |
| <b>Audit scope and timing</b> | <b>7</b> |
| 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.

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 Western Isles 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  |
|--|---|---|
| <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>Agreement of balances and transactions to Comhairle nan Eilean Siar and NHS Western Isles financial reports/ correspondence.</p> <p>Service auditor assurances will be obtained from the auditors of Western Isles Council and NHS Western Isles over the completeness, accuracy and allocation of the income and expenditure.</p> |
| <b>Wider dimension risks</b>   |   |   |
| <p><b>2 Financial management</b></p> <p>The IJB agreed a budget for 2017/18 that included £1.6 million of required savings. At period 7 the forecast outturn was a net underspend of £232k, comprising</p>   | <p>Ongoing monthly reviews will be carried out to ensure all areas are monitored closely.</p> <p>A financial efficiency plan is in place and is continuously updated, to address areas of</p> | <p>Review of monthly financial reports and projections prepared by the Chief Finance Officer.</p> <p>Consider any contingency actions if financial balance is</p>   |

| Audit Risk   | Source of assurance | Planned audit work   |
|--|---------------------|--|
| <p>a projected overspend by NHS Western Isles of £923K and an underspend by the Comhairle of £1.155m.</p> <p>At period 7, £175k of the required savings were forecast not to be achieved and £623k were considered high risk. Without appropriate medium term financial plans or sufficient reserves, there is a risk that the IJB is not financially sustainable and continues to be dependent on additional year-end funding from NHS Western Isles and Comhairle nan Eilean Siar.</p> | overspend.          | <p>not to be achieved.</p> <p>Consider the findings from internal audit work on the 2017/18 budget.</p> <p>Review adequacy of medium to long term financial plans.</p> |

## Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](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 officers to confirm factual accuracy.

6. We will provide an independent auditor's report to Western Isles Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

| Audit Output                 | Target date      | Integration Joint Board Date |
|------------------------------|------------------|------------------------------|
| Annual Audit Plan            | 2 February 2018  | 15 February 2018             |
| Annual Audit Report          | 6 September 2018 | 20 September 2018            |
| Independent Auditor's Report | 6 September 2018 | 20 September 2018            |

## Audit fee

7. The proposed audit fee for the 2017/18 audit of Western Isles Integration Joint Board is £24,000 (£17,400 2016/17). In determining the audit fee we have taken account of the risk exposure of Western Isles 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 20 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**

### **Health and Social Care Integration Joint Board, Audit Sub-Committee and Chief Accountable Officer**

**9.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**10.** The audit of the financial statements does not relieve management or the Health and Social Care Integration Joint Board and Audit Sub-Committee, as those charged with governance, of their responsibilities.

### **Appointed auditor**

**11.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, 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 Western Isles 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 Western Isles Integration Joint Board will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- give a true and fair view of the state of affairs of the Western Isles Integration Joint Board and their income and expenditure
- have been properly prepared in accordance with IFRSs as adopted by the European Union 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.

## 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 Western Isles 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.  | £0.65 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 60% of planning materiality. | £0.4 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 3% of planning materiality.  | £20,000       |



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

### Timetable

**18.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates.

## Exhibit 4

### Financial statements timetable

|  Key stage |  Date |
|---|--|
| Consideration of unaudited financial statements by those charged with governance              | 22 June 2018   |
| Latest submission date of unaudited annual accounts with complete working papers package      | 20 June 2018   |
| Latest date for final clearance meeting with Chief Financial Officer                          | 6 September 2018   |
| Issue of letter of representation and proposed independent auditor's report                   | By 20 September 2018   |
| Agreement of audited unsigned annual accounts   | By 20 September 2018   |
| Issue of Annual Audit Report including ISA 260 report to those charged with governance        | By 20 September 2018   |



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Independent auditor's report signed

By 30  
September  
2018

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## 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 Comhairle nan Eilean Siar.

## Adequacy of Internal Audit

**20.** The Internal Audit function is provided by the Internal Audit department within the Comhairle. Reviews on the Western Isles Integration Joint Board are regular and on-going with their reports being issued to the Board. No issues have been identified regarding the adequacy of Internal Audit in serving Western Isles Integration Joint Board.

## 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:

- Due diligence on the 2017/18 budget
- Governance arrangements

## 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



**23.** 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 following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Western Isles Integration Joint Board can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

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

### **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 Western Isles 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**

**27.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Western Isles 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

**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 Western Isles 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 Western Isles Integration Joint Board.

## 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 Western Isles 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 they have discharged their 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.

# Western Isles Integration Joint Board

## Annual Audit Plan 2017/18

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