

# Clackmannanshire & Stirling Integration Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Clackmannanshire & Stirling Integration Joint Board  
March 2020

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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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value


3. We aim to add value to the Clackmannanshire & Stirling Integration Joint Board (the IJB) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the IJB promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks 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](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Management override of controls</b></p> <p>International Standard on Auditing 240 (ISA240) requires that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<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> <li>• Substantive testing of transactions around the year end to confirm income and expenditure are accounted for in the correct financial year.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Fraud in income recognition.</b></p> <p>Under ISA 240 there is a presumed risk that income may be fraudulently misstated due to the improper recognition of income.</p>	<p>The IJB receives its income by way of budget allocations from Clackmannanshire Council, Stirling Council and NHS Forth Valley; and then commissions services in line with its Strategic Plan. As this limits the opportunity for manipulation, we have rebutted the presumed risk of improper recognition of income.</p>	<ul style="list-style-type: none"> <li>• We have rebutted the risk of material misstatement caused by income recognition, therefore no specific procedures are required as part of our planned audit work.</li> <li>• We will, however, review management arrangements for confirming year end balances with partners.</li> <li>• We will also confirm with the auditor of partner bodies that they have carried out audit work covering the financial systems which provide the IJB income recorded in the accounts.</li> </ul>
<p><b>3 Fraud over expenditure.</b></p> <p>The Financial Reporting Council's Practice Note 10 requires auditors of public bodies to consider the risk of significant misstatement in the financial statements due to manipulation and fraud over expenditure recognition</p>	<p>IJB expenditure is processed through the financial systems of the partner bodies. The manipulation of expenditure is deemed as a risk at the Councils and Health Board rather than the IJB. We obtain assurances from the auditors of the partner bodies over the accuracy and completeness of transactions coded to IJB account codes. Consequently, we have rebutted the risk of improper recognition of expenditure within the IJB.</p>	<ul style="list-style-type: none"> <li>• We have rebutted the risk of material misstatement caused by fraud in expenditure, therefore no specific procedures are required as part of our planned audit work.</li> <li>• We will, however, review management arrangements for confirming expenditure for the year and year end balances with partners.</li> <li>• We will also confirm with the auditor of partner bodies that they have carried out audit work covering the financial systems which produce expenditure incurred by the IJB in its accounts.</li> </ul>
<p><b>Wider dimension risks</b></p>		
<p><b>4 Financial sustainability</b></p> <p><a href="#">2019/20 budget overspend</a></p> <p>During 2019/20, the IJB has faced a number of financial challenges including:</p> <ul style="list-style-type: none"> <li>• The 2019/20 budget outlined that savings and efficiencies of £7.282 million were required to break even. The IJB identified savings of £3.302 million, some of which are at risk of not being achieved. Therefore, there is a residual budget gap of £3.980 million for 2019/20.</li> <li>• The latest budget monitoring report for the period to 30th</li> </ul>	<p>Regular financial monitoring is reported to the IJB and discussed with partners.</p> <p>The IJB plans to update the integration scheme during 2020 to make it clearer how overspends will be financed and accounted for in future.</p> <p>Partners will meet to agree the basis for financing the projected 2019/20 overspend.</p> <p>Due diligence will be completed over the</p>	<ul style="list-style-type: none"> <li>• Review and assess the progress in identifying required savings with partner bodies and their impact.</li> <li>• Appraise the approach for agreeing year end IJB outturns between partner bodies.</li> <li>• Consider the extent to which partners agree a basis on which to fund the overspend.</li> <li>• Review the progress the IJB have made towards agreeing the 2020/21 budget and agreeing the</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>November 2019 projects a deficit of £2.078 million for 2019/20.</p> <p>The IJB brought forward £1.977 million of earmarked general fund reserves into 2019/20. Discussions are ongoing to agree how much (if any) of the reserves balance can be used to fund the projected deficit.</p> <p>The recovery actions in place will not deliver the efficiency savings required. Therefore, there is a risk that the IJB will not achieve a break-even position in 2019/20. The integration scheme outlines, in broad terms, the procedures that partner bodies should follow in the event of an overspend. As these procedures are subject to agreement, discussions are underway between partners to agree how the projected overspend for 2019/20 will be funded.</p> <p><a href="#">Period to 2021/22</a></p> <p>In the medium term the IJB will continue to face a number of financial challenges, including:</p> <ul style="list-style-type: none"> <li>• Efficiencies and savings of £9.982 million have been identified for the three-year period to 2021/22, however, this still leaves a budgeted gap of £6.299 million over this period.</li> <li>• Increasing demand for services, particularly within adult social care and set aside services.</li> <li>• Continued volatility in prescribing costs and increase in demand.</li> </ul> <p>There is a risk to financial sustainability and the sustainability of future services.</p>	<p>2020/21 budget setting process. This will build on experience gained in prior years and the need for the IJB to meet savings requirements.</p>	<p>efficiencies required to break even.</p>
<p><b>5 Financial management</b></p> <p>A three-year financial plan is in place for 2019/20 to 2021/22. This identifies the savings required to achieve a balanced budget over the three-year period. However, this requires to be aligned to the IJBs most up to date strategic plan and the consequent directions issued to the partner bodies.</p>	<p>The Transforming Care Programme is being developed as the delivery plan to underpin pursuance of Strategic Plan priorities and deliver financial efficiencies. This will be aligned to medium term financial planning.</p>	<ul style="list-style-type: none"> <li>• Monitor progress in linking financial plans to the IJBs strategic plan and objectives.</li> <li>• Review the progress the IJB have made towards agreeing the 2020/21 budget and agreeing the efficiencies required to break even over the medium term.</li> </ul>

**Audit Risk****Source of assurance****Planned audit work**

Source: Audit Scotland

## 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 the IJB and Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer, the Auditor General for Scotland and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 March 2020	24 March 2020
Annual Audit Report	4 September 2020	16 September 2020 (TBC)
Independent Auditors Report	28 August 2020	16 September 2020 (TBC)

Source: Audit Scotland

## Audit fee

**8.** The proposed audit fee for the 2019/20 audit of the IJB is £26,560 [£25,000 in 2018/19]. In determining the audit fee we have taken account of the risk exposure of Clackmannanshire & Stirling 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 annual accounts, with a complete working papers package on 10 June 2020.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 out with our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

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

#### Appointed auditor

**12.** Our responsibilities as independent auditors are established by 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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

## Annual accounts

**14.** The annual accounts, which include the financial statements, will be the foundation and source for most 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 whether the financial statements

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the of the state of affairs of the IJB as at 31 March 2020 and its 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 2019/20 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.



## Statutory other information in the annual accounts

**16.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**17.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**18.** 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 opinions in the independent auditor's report.

**19.** The calculated materiality values for the IJB are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use to assess 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 2020 based on the 2018/19 audited annual report and accounts.	£1.900 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 set performance materiality at 60% of planning materiality.	£1.140 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 2.5% of planning materiality (rounded).	£0.050 million



Source: Audit Scotland

## Timetable

**20.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Agreement of transactions and balances with partner bodies	15 May 2020
Latest submission date of unaudited annual accounts with complete working papers package	10 June 2020
Consideration of unaudited annual accounts by those charged with governance	24 June 2020 (TBC)
Latest date for final clearance meeting with Chief Finance Officer	21 August 2020
Issue of Letter of Representation and proposed Independent Auditor's Report	28 August 2020
Agreement of unaudited unsigned annual accounts by Audit Scotland	28 August 2020
Issue of Annual Audit Report to those charged with governance	4 September
Independent Auditor's Report signed by Audit Scotland	By 25 September

## Internal audit

**21.** Internal audit is provided by the partner bodies. Overall planning and reporting of these services, as they impact the IJB, are provided by the NHS Forth Valley internal audit team for the three-year period to 2022/23. NHS Forth Valley's

internal audit function is provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF).

**22.** As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**23.** We have concluded, based on our review of the internal audit function provided by FTF, that they generally comply with the PSIAS and that appropriate documentation standards and reporting procedures are in place. We have relied on this work for our own purposes.

### Using the work of internal audit

**24.** 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 to avoid duplication.

**25.** From our initial review of internal audit plans, we do not plan to use the work of internal audit when forming our opinion on the financial statements. However, we will consider the outcomes of this work and review internal audit's arrangements for supporting the Governance Statement reported in the annual report and accounts.

**26.** In respect of our wider dimension audit responsibilities we plan to use the following areas of internal audit work:

- Review of systems of risk management.
- Review and mapping of assurances over key risks and controls.
- Assessment of accountability structure in respect of clinical and care governance.

### Audit dimensions

**27.** 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



Source: Code of Audit Practice

**28.** The appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

#### Financial sustainability

**29.** 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 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

**30.** 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;
- effective budgetary control system in communicating accurate and timely financial performance;
- assured itself that its financial capacity and skills are appropriate; and
- appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

#### Governance and transparency

**31.** 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:

- demonstrate that the governance arrangements in place are appropriate and operating effectively;
- has effective scrutiny, challenge and transparency on the decision-making and finance and performance reports; and
- can demonstrate quality and timeliness of financial and performance reporting.

### Value for money

**32.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the IJB can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

### Best Value

**33.** Integration Joint Boards have a statutory duty to make arrangements to secure best value. We will review and report on these arrangements.

### Independence and objectivity

**34.** 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 robust arrangements in place 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.

**35.** The engagement lead (i.e. appointed auditor) is John Cornett, Audit 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 the IJB.

### Quality control

**36.** 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.

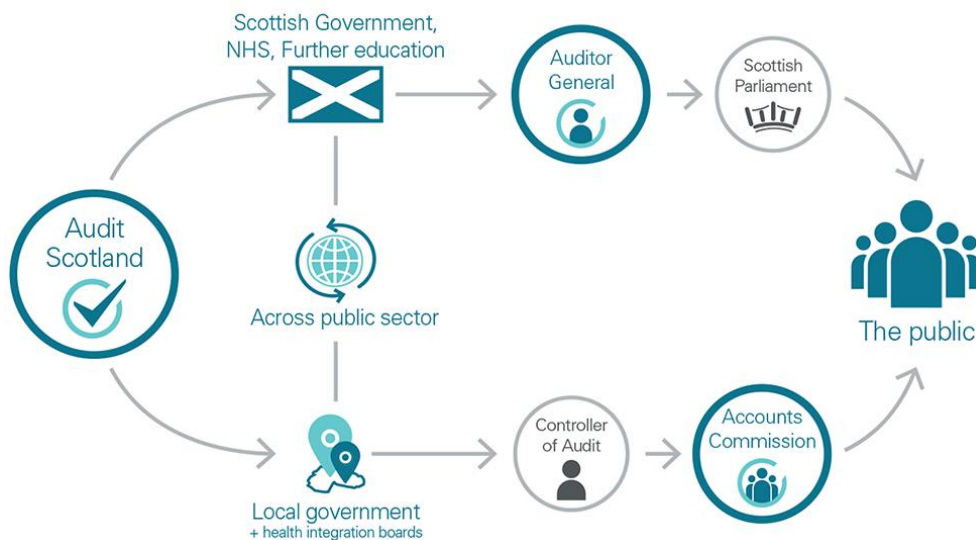
**37.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**38.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service. We welcome feedback at any time and this may be directed to the engagement lead.

# 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.

# Clackmannanshire & Stirling Integration Joint Board

## Annual Audit Plan 2019/20

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