
To: Renfrewshire Integration Joint Board Audit Committee

On: 26 January 2018

Report by: Chief Finance Officer

Subject: Annual Audit Plan 2017/18

1. Summary

- 1.1 The Annual Audit Plan 2017/18 for Renfrewshire Integration Joint Board is submitted for Members' information. The Plan outlines Audit Scotland's planned audit activities for the financial year 2017/18.
- 1.2 The Annual Audit Plan includes a section on Audit Issues and Risks. Within this section Audit Scotland have identified a risk of "Management override of controls". This risk is being included in the audit plans of all bodies which Audit Scotland are working with, in light of updated international standards on auditing. The inclusion of this risk is not a reflection of increased risk within Renfrewshire Integration Joint Board. Audit Scotland has confirmed that they have not found any issues on this in previous years.

2. Recommendations

- 2.1 The Joint Board is asked to note the Annual Audit Plan 2017-18 by Audit Scotland.

Renfrewshire Integration Joint Board

Annual Audit Plan 2017/18



 **AUDIT SCOTLAND**

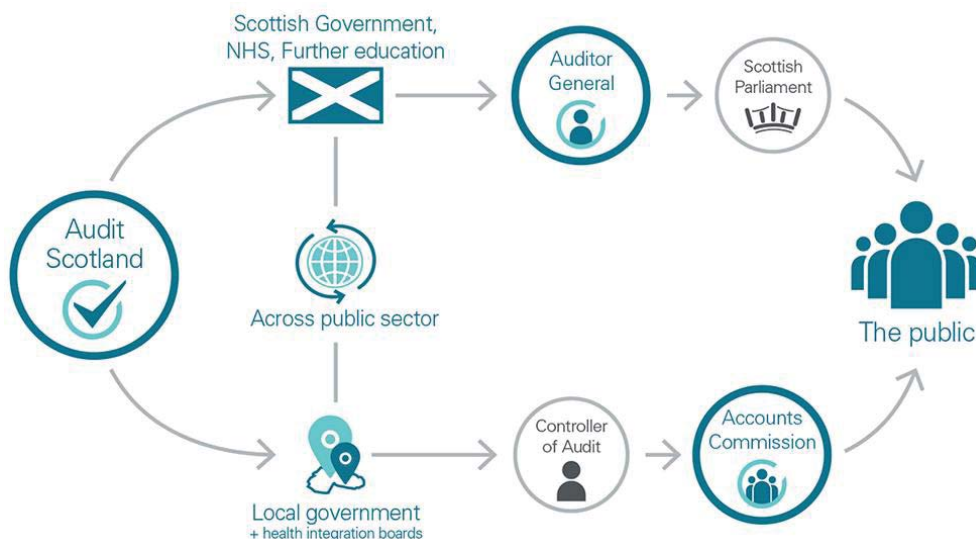
Prepared for Renfrewshire Integration Joint Board

26 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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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 Renfrewshire 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](#).

Exhibit 1

2017/18 Key audit risks

Audit Risk	Management's 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>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>2 Approval of 2016/17 financial statements</p> <p>There were a number of procedural issues noted during the completion of the 2016/17 financial statements.</p> <p>Although these did not delay the financial statements statutory sign off deadline there is a risk of</p>	<p>Meetings will be scheduled with the external auditor early on in the audit process to establish and agree timescales and procedures to be followed for the 17/18 accounts review. This will include agreeing relevant papers, appendices, certificates to be included and presented to the</p>	<p>Working closely with the audit committee and finance team to ensure potential issues are identified early on.</p>

Audit Risk	Management's source of assurance	Planned audit work
similar issues in 2017/18.	IJB Audit Committee and IJB	
Wider dimension risks		
<p>3 Financial sustainability</p> <p>RIJB is projecting a breakeven position for the 2017/18 financial year. However this is contingent on the use of reserves (£4.3 million, some of which was planned) and additional funding (£4.4 million) provided by Renfrewshire Council.</p> <p>The IJB also has a number of medium term financial pressures including pay inflation, increasing prescribing costs and increasing service demand.</p> <p>Based in the expected impact of these pressures the IJB has identified a funding gap of between £16 million and £21 million for the period 2018/19-20/21. RIJB is projecting that annual savings of £6 million will be required to breakeven in this period.</p> <p>The short and medium term financial challenges highlight the risk that RIJB may be unable to maintain its current level of service provision whilst achieving financial balance.</p>	<p>The IJB approved their 3 year Financial Plan in November 2017, which set out a clear short to medium term financial strategy. Financial Reports are brought to each IJB meeting to update members on the IJB's ability to deliver on this strategy and review its in-year financial position in line with its Financial Plan.</p> <p>Furthermore, as part of the wider HSCP transformation agenda, a programme of recurring cost containment and redesign work is underway. This programme is building on a long-standing approach to deliver savings and efficiencies for local health services, it includes a review of all major services, workforce planning changes and budget efficiencies. IJB Members receive regular updates on this programme.</p> <p>Building upon this, the Chief Finance Officer and Chief Officer are proactively working with IJB members to address its recognised financial pressures. Regular development sessions with the IJB members include discussion around the HSCP's proposal to address the recognised financial pressures for 18/19. On the back of this work, the IJB has already agreed some of the savings required to deliver a balanced budget.</p> <p>The HSCP has an established financial planning process and is developing further saving proposals in liaison with the IJB for approval at future Boards.</p> <p>The Chief Officer and Chief Finance Officer also have regular budget monitoring and planning meetings with the Chief Executives and Finance</p>	<p>Attendance at board meetings.</p> <p>Monitoring of performance against savings plans.</p> <p>Monitoring service delivery KPIs.</p> <p>Assessment of savings plan for 2018/19 and 2019/20.</p>

Audit Risk	Management's source of assurance	Planned audit work
	<p>Directors of both the Council and NHS GGC in order to proactively manage the IJB's budget strategy and in-year financial position.</p>	
<p>4 Agreement of health budgets</p> <p>The 2017/18 health budget was not agreed until September 2017, six months after the start of the financial year.</p> <p>The health budget for 2018/19 is due to be approved at the board meeting on 23 March 2018.</p> <p>Due to the delays experienced last year, there is a risk that the 2018/19 health budget will not be approved until after the start of the financial year. This could impact the ability of the IJB to strategically manage expenditure.</p>	<p>In a letter dated 14 December 2017, Christine McLaughlin, Director of Health Finance at the Scottish Government noted that "NHS Boards should ensure that 2018-19 budget settlements for Integration Authorities are in place in advance of the new financial year".</p> <p>To further mitigate the risk of delay, the Chief Finance Officer and Chief Officer will, as a priority, assess the budget offer as soon as it is confirmed by the Health Board, and make recommendations on its sufficiency to the IJB. To ensure the timely agreement of the final budget in advance of the new financial year, an IJB meeting has been scheduled on Friday 23 March 2018.</p>	<p>Attendance at board meetings and discussion with management.</p>
<p>5 Roles of board and committee members</p> <p>A number of the board and audit committee members have less than 12 months experience in their appointed role.</p> <p>From discussions with management there is a programme to provide training and development to support members. Until this is rolled out there is a risk that members are not fully effective in their respective roles.</p>	<p>Training Needs Analysis is currently being carried out for all IJB Members and a tailored training programme will be developed based on this exercise.</p> <p>In addition, the HSCP holds regular development sessions for all IJB Members. These have all been timetabled for the coming the year. Members are asked for topics they would like covered at these sessions.</p> <p>IJB Audit Committee Members are also routinely provided training on key topics/issues the by the Internal Auditor.</p> <p>The HSCP is also actively engaging with the other 5 HSCPs in the GGC area to take advantage of any shared IJB training and development opportunities and/ or gaining</p>	<p>Attendance at board and audit committee meetings.</p>

Audit Risk	Management's source of assurance	Planned audit work
	feedback on what different approaches have been well received by Members.	

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 officer(s) to confirm factual accuracy.

6. We will provide an independent auditor's report to Renfrewshire IJB and 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	Audit Committee Date
Annual Audit Report	30 September 2018	TBC
Independent Auditor's Report	30 September 2018	TBC

Audit fee

7. The proposed audit fee for the 2017/18 audit of Renfrewshire IJB is £24,000 (2016/17: £17,400). In determining the audit fee we have taken account of the risk exposure of Renfrewshire 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 29 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 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 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 Renfrewshire 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 Renfrewshire 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.

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 Renfrewshire IJB as at 31 March 2018 and its income and expenditure for the year there 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 Renfrewshire IJB 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 latest budgeted for expenditure for 2017/18. Planning materiality will be updated on receipt of the unaudited annual accounts in June 2018.	£2.549 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 60% of planning materiality.	£1.529 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 5% of planning materiality.	£0.124 million

Source: Audit Scotland



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 date:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	29 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with Chief Financial Officer	Early September 2018
Issue of letter of representation and proposed independent auditor's report	By 30 September 2018
Agreement of audited unsigned annual accounts	By 30 September

2018

 Issue of Annual Audit Report including ISA 260 report to those charged with governance

Independent auditor's report signed

 By 30
 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. The IJB's internal audit function is provided by the internal auditors of Renfrewshire Council, overseen by a Chief Internal Auditor.

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 plan to consider other areas of internal audit work including:

- Governance – compliance with Integration Scheme

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](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

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 Renfrewshire IJB has arrangements in place to ensure systems of internal control are operating effectively
- whether Renfrewshire IJB can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Renfrewshire IJB has assured itself that its financial capacity and skills are appropriate
- whether Renfrewshire 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 Renfrewshire 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 demonstrate high standards of behaviour and receive sufficient training and development
- 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:

- whether Renfrewshire IJB can provide evidence that it is demonstrating value for money in the use of its resources.
- whether Renfrewshire IJB can demonstrate that there is a clear link between money spent, output and outcomes delivered.

- whether Renfrewshire IJB can demonstrate that outcomes are improving.
- whether there is sufficient focus on improvement and the pace of it.

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 David McConnell. 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 Renfrewshire IJB.

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.

Renfrewshire Integration Joint Board

Annual Audit Plan 2017/18

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