

# Angus Integration Joint Board

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Angus Integration Joint Board

December 2019

## 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 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 including the audit of Best Value.

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 Angus 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 Angus Integration Joint Board 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 risk for Angus Integration Joint Board. 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><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require 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 accounting entries.</li> <li>Service auditor assurances will be obtained from the auditors of Angus Council and NHS Tayside over the completeness, accuracy and allocation of the income and expenditure.</li> </ul>
<p><b>2 Financial statements preparation.</b></p> <p>Preparation of the IJB financial statements relies on the provision of financial and non-financial information from the systems of the</p>	<p>Strong working relationships with Angus Council and NHS Tayside.</p>	<ul style="list-style-type: none"> <li>Review of the annual governance statement to ensure it adequately reflects the position of the IJB and complies with the Code.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>two partner bodies. The Chief Finance Officer of the IJB must obtain assurance that the costs transferred to the accounts of the IJB are complete and accurate and incurred on behalf of the IJB for services prescribed in the integration scheme. There is a risk that the Chief Finance Officer does not obtain adequate assurance that information received from each party is accurate and complete.</p>	<p>The integration scheme specifies the financial reporting responsibilities of both Angus Council and NHS Tayside.</p> <p>Monthly monitoring of financial information. Assurances provided through internal audit arrangements.</p> <p>Update on the latest position regarding the large hospital set aside.</p>	<ul style="list-style-type: none"> <li>• Confirm appropriate action is taken on issues raised in internal audit reports.</li> <li>• Confirm that financial reporting throughout the year is accurately reflected in the year end position.</li> <li>• Carry out audit testing to confirm the accuracy and correct allocation of IJB transactions, and that they are recorded in the correct financial year.</li> <li>• Obtain formal assurances from the auditors of Angus Council and NHS Tayside.</li> </ul>
<b>3</b>	<p><b>Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. The IJB is reliant on counter fraud arrangements at its two partner bodies; the Chief Finance Officer should obtain sufficient assurances from partner bodies on the effectiveness of these arrangements.</p>	<p>Robust budget monitoring.</p> <p>Assurances to be provided to the IJB by Angus Council and NHS Tayside on the completeness and accuracy of transactions coded to IJB account codes.</p>	<ul style="list-style-type: none"> <li>• Obtain service auditor assurances from the auditors of Angus Council and NHS Tayside over the accuracy and completeness and appropriate allocation of the IJB ledger entries.</li> <li>• Carry out audit testing to confirm the accuracy and correct allocation of IJB transactions, and that they are recorded in the correct financial year.</li> </ul>
<b>4</b>	<p><b>Large hospital set aside</b></p> <p>In the fourth year of operation of the IJB, it is important to establish whether the Large Hospital Set Aside arrangement, and financial reporting thereof, is working as intended.</p>	<p>Methodology agreed with NHS Tayside and the other Tayside IJBs.</p>	<ul style="list-style-type: none"> <li>• Review of the large hospital set aside methodology and relevant data.</li> </ul>
<b>Wider dimension risks</b>			
<b>5</b>	<p><b>Financial sustainability</b></p> <p>NHS Tayside and Angus Council face significant financial pressures from funding reductions and increasing demand.</p> <p>There is a risk that the IJB in partnership with NHS Tayside and Angus Council may not be able to identify sustainable savings measures or meet cost pressures as they arise.</p> <p>The Integration Joint Board's Strategic Financial Plan 2019-22 (as reported in April 2019) identified a funding gap of more than £7.6m by 2021/22. This plan was updated in</p>	<p>Budget settlement and financial planning update papers provided to the Board.</p>	<ul style="list-style-type: none"> <li>• Review progress made on meeting savings targets and dealing with cost pressures.</li> <li>• Reviewing the strategic financial plan update and the assumptions made to ensure that they are reasonable.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>December 2019, with an identified funding shortfall of £8.2m by 2022/23.</p> <p><b>6 Value for money</b></p> <p>The Integration Joint Board has delivered several service improvements which moved resources into community based care rather than hospital based care. However, the Integration Joint Board faces more severe challenges to address increasing demands and the demographic pressures of an ageing, and longer-lived, population, while remaining within its resource constraints.</p> <p>Collaborative working with partner bodies and other Integration Joint Boards may provide some improvements, but more significant decisions may have to be taken by Integration Joint Board members. The Integration Joint Board has identified that a lack of capacity may undermine its ability to deliver more fundamental transformation of health and social care provision.</p>	<p>Strategic planning reports provided to the Board.</p>	<ul style="list-style-type: none"> <li>• Review of how the IJB demonstrates its duty of best value</li> <li>• Consider the adequacy of the IJB's strategic plans for meeting local needs within resource constraints</li> </ul>
<p>Source: Audit Scotland</p>		

**5.** As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risk of material misstatement caused by fraud in income recognition in 2019/20 because Angus Integration Joint Board's income consists of agreed funding from the partner bodies.

## Reporting arrangements

**6.** 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).

**7.** 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.

**8.** We will provide an independent auditor's report to Angus 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 during the audit.

## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2020	11 December 2019
Annual Audit Report	30 September 2020	26 August 2020
Independent Auditor's Report	30 September 2020	26 August 2020

Source: Audit Scotland

### Audit fee

**9.** The proposed audit fee for the 2019/20 audit of Angus Integration Joint Board is £tbc (fee range not yet issued) (2018/19 £25,000). In determining the audit fee we have taken account of the risk exposure of Angus 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 30 June 2020.

**10.** 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

**11.** 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.

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

#### Appointed auditor

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

**14.** 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 and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**15.** 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 Angus 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 Angus 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.

**16.** We will give an opinion on whether the financial statements

- give a true and fair view of the state of affairs of the body as at 31 March 2020 and of 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; and
- 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 2013.

## Statutory other information in the annual accounts

**17.** We also review and report on statutory “other information” published within the annual accounts, which includes 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.

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

## Materiality

**19.** 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.



characteristics



responsibilities



principal activities



risks



governance arrangements



20. We calculate materiality at different levels as described below. The calculated materiality values for Angus Integration Joint Board are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of budgeted net expenditure for the year ended 31 March 2020 based on the latest finance report to the Integration Joint Board (October 2019).	£1.6 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 75% of planning materiality.	£1.2 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 calculated at 1% of planning materiality.	£16 thousand

Source: Audit Scotland

### Timetable

21. 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 year end balances for NHS Tayside's group accounts consolidation	31 May 2020
Consideration of unaudited annual accounts by those charged with governance	24 June 2020
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting with Chief Finance Officer	12 August 2020
Issue of Letter of Representation and proposed independent auditor's report	19 August 2020
Agreement of audited unsigned annual accounts	19 August 2020
Independent auditor's report signed	26 August 2020
Issue of Annual Audit Report to those charged with governance	26 August 2020

### Internal audit

22. Internal audit is provided by Fife, Tayside & Forth Valley Audit and Management Services (FTF) with support from Angus Council internal audit section. 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 that FTF has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). We noted last year that an external review of FTF's PSIAS compliance (required every 5 years) was due to be reported. The review by Midlothian Council's Internal Audit function (as a qualified independent assessor) has been reported and the overall conclusion was that FTF generally conforms with the PSIAS. There were 8 areas of full conformity and 5 areas of general conformity. A separate, NHS Tayside specific review by the Institute of Internal Auditors of FTF's compliance with the International Professional Practice Framework (IPPF) was also carried out in 2019. The report found 54 areas of general conformance, 10 areas of partial conformance and no areas of non-conformance. We have concluded that we can place reliance on FTF's work where this will avoid duplication or reduce our own audit work (see paragraphs 25 and 26 below).

**24.** We will review Angus Council's internal audit section in early 2020 as part of our council audit planning.

#### Using the work of internal audit

**25.** 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. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently and effectively.

**26.** We take audit assurance from the external auditors of Angus Council and NHS Tayside over the ledger information used to prepare the Integration Joint Board accounts. We will not place formal reliance on the work of internal audit to reduce our financial statements audit testing, but we will take account of all their work to inform our wider dimension audit responsibilities.

## 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.** 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

**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
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

#### 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 consider:

- whether arrangements are in place to assure the IJB that partner bodies' systems of internal control are operating effectively
- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how Angus Integration Joint Board has assured itself that its financial capacity and skills are appropriate

- whether there are 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 consider:

- whether Angus Integration Joint Board can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others).
- whether there is effective scrutiny, challenge and transparency on decision-making and finance and performance reports.
- the arrangements that the IJB has in place to assure itself of the quality and timeliness of financial and performance reporting, as it is reliant on partner bodies for the relevant information.

### **Value for money**

**32.** Value for money refers to using resources effectively and continually improving services. We will consider whether Angus Integration Joint Board can demonstrate:

- value for money in the use of resources
- a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.
- that 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) for Angus Integration Joint Board is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor Gillian Woolman 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 Angus Integration Joint Board.

### **Quality control**

**36.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires a system of quality control to be 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 provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Angus Integration Joint Board

## Annual Audit Plan 2019/20

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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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)