



<b>Meeting of East Renfrewshire Health and Social Care Partnership</b>	Integration Joint Board
<b>Held on</b>	24 June 2020
<b>Agenda Item</b>	7
<b>Title</b>	Audit Scotland Annual Audit Plan 2019/20
<p><b>Summary</b></p> <p>Audit Scotland's Integration Joint Board Annual Audit Plan 2019/20 was prepared for the March meeting of the Performance and Audit Committee. Meeting papers were published however as the meeting had to be cancelled due to the COVID-19 pandemic there was no opportunity for discussion and agreement. IJB members are therefore asked to formally agree the audit plan.</p>	
<b>Presented by</b>	Aimee MacDonald, Senior Auditor
<p><b>Action Required</b></p> <p>The Integration Joint Board is asked to agree the Integration Joint Board Annual Audit Plan 2019/20 as prepared by Audit Scotland.</p>	

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# East Renfrewshire Integration Joint Board

Annual Audit Plan 2019/20 - DRAFT



 AUDIT SCOTLAND

Prepared for East Renfrewshire 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 East Renfrewshire Integration Joint Board (ERIJB) 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 East Renfrewshire 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 risks for East Renfrewshire 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 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 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>• Cut-off testing</li> </ul>
<p><b>2 New finance ledger</b></p> <p>East Renfrewshire Council (ERC) introduced a new finance ledger, Integra, during the year. As ERIJB's</p>	<p>The IJB CFO is a member of the project board governing the implementation of the</p>	<ul style="list-style-type: none"> <li>• Take ISA 402 assurance over the work performed by ERC's external audit team regarding the</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>financial statements are prepared using ERC's ledger and, as with any major change in financial systems, there is an increased risk of misstatement on the figures and balances.</p>	<p>new ledger and had input into all decisions.</p> <p>Assurances on testing and compliance were routinely provided by the dedicated project team.</p> <p>The Council's Chief Accountant and Chief Internal Auditor, along with HSCP Accountancy worked with the core team to ensure correct balances carried over.</p> <p>Data migration included input from Council internal and external audit.</p> <p>The HSCP was supported by the project team with preparation, implementation and training for the new system.</p> <p>Routine monitoring, reporting and reconciliations are in place and provide assurance.</p>	<p>completeness and accuracy of the new finance ledger.</p>
<p><b>3 Staff Capacity</b></p> <p>The Accountancy and Contracts Manager who took the lead in preparing the financial statements has retired and one of the financial accountants has left the post. This will have potential impact on capacity of the HSCP Accountancy Team and the timetable for the audit of the financial statements.</p>	<p>Whilst there are capacity issues as result of a reduced team – interim arrangements are in place with an existing team member acting into the manager position.</p> <p>In addition the Head of Finance and Resources (Chief Financial Officer for the IJB) and the Client Finance Manager are qualified accountants with significant experience.</p> <p>The year end workload will be prioritised to ensure the annual report and accounts is produced to timetable and supported by the usual high standard working papers.</p>	<ul style="list-style-type: none"> <li>We will liaise with both the Chief Financial Officer and the new Accountancy and Contracts Manager appointed throughout the audit.</li> </ul>



**Audit Risk****Source of assurance****Planned audit work****Wider dimension risks****4 Financial sustainability****2019/20**

The IJB is facing a funding gap of £3.6 million in 2019/20. A savings plan of £3.6 million has been identified to address this gap.

As at the 29 February 2020, the IJB is facing a predicted year end overspend of £0.479m. The IJB intends to fund this overspend from reserves.

**2020/21 Onwards**

At the time of writing, the 2020/21 savings requirement is estimated between £3.1 million-£3.5 million and a savings plan has yet to be identified.

There is a risk that ERIJB will be unable to achieve a sustainable outturn position going forwards, particularly given the uncertainty of future funding contributions.

The savings identified for 2019/20 are reported to every IJB and are detailed in a separate appendix within the revenue monitoring report.

The budget that will be proposed to the the IJB in March identifies a funding gap of c£2.5 million along with savings proposals to close this gap.

There will be a need to bridge some of the saving related to care packages which will likely utilise in full the IJB budget saving and in year contingency reserves.

- Review ERIJB's reported outturn financial position as part of the financial statements audit
- Assess the delivery of in-year savings programs
- Review the robustness of future savings plans identified

**5 Financial management - Set Aside**

The 2018 Scottish Parliament report, "Looking ahead to the Scottish Government - Health Budget 2019-20: Is the budget delivering the desired outcomes for health and social care in Scotland?", concluded that the set aside budget is, generally, not operating as intended. Significantly, the report highlights that there is a disconnect between how the set aside budget should operate in principle compared with how it is operating in practice meaning that this mechanism for shifting the balance of care is not being utilised effectively.

An effective set aside mechanism, which takes account of the shift in services from hospitals to community and social care, will provide the IJB more control in utilising the set aside budget to deliver its strategic objectives and help ensure financial sustainability.

An Unscheduled Care Commissioning Plan has been developed across NHSGGC HSCPs and will be brought to each IJB. This sets out the first steps in developing strategic plans for unscheduled care.

The set aside budgets have been restated as the initial element of the work.

The solution for East Renfrewshire HSCP will be part of this system wide work.

- Review the IJB's approach to using the set aside budget, specifically through its engagement with the Health Board to improve set-aside arrangements and report on progress made to date.

Source: Audit Scotland

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 risks of material misstatement caused by fraud in income recognition in 2019/20 because the ERIJB receives its income by way of budget allocations from East Renfrewshire Council (ERC) and NHS Greater Glasgow and Clyde (NHSGGC), limiting the opportunity for manipulation.

6. In line with Practise Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2019/20 because ERIJB expenditure is processed through the financial systems of ERC and NHSGGC. Consequently, the risk of expenditure manipulation lies with the partner bodies. Assurances over the accuracy and completeness of IJB transactions will be obtained from the auditors of ERC and NHSGGC.

## Reporting arrangements

7. 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).

8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Our draft reports will be issued to the relevant officers to confirm factual accuracy.

9. We will provide an independent auditor's report to East Renfrewshire Integration Joint Board and Accounts Commission setting out our opinions on the annual report and 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	10 March 2020	18 March 2020
Independent Auditor's Report	11 September 2020	23 September 2020
Annual Audit Report	11 September 2020	23 September 2020

Source: Audit Scotland

## Audit fee

10. The proposed audit fee for the 2019/20 audit of the ERIJB is £26,560. [2018/19: £25,000]. In determining the audit fee we have taken account of the risk exposure of East Renfrewshire 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 report and accounts with a complete working papers package on 30 June 2020.

11. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and 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 Chief Financial Officer

**12.** 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.

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

### Appointed auditor

**14.** 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.

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

**16.** The annual report and 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 ERIJB 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 ERIJB 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.

**17.** 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 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;
- 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual report and accounts

**18.** We also review and report on statutory other information published within the annual report and 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.

**19.** 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

**20.** 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.

21. Materiality values for East Renfrewshire Integration Joint Board are set out in [Exhibit 3](#). The values will be revisited upon receipt of the 2019/20 annual report and accounts.

### 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 latest audited accounts for 2018/19.	£1.60 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 70% of planning materiality.	£1.12million
<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 3% of planning materiality.	£48,000

Source: Audit Scotland

### Timetable

22. 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 report and accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	24 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package by ERIJB to Audit Scotland	30 June 2020
Latest date for final clearance meeting with Chief Financial Officer	09 September 2020
Issue of Letter of Representation and proposed independent auditor's report	11 September 2020
Agreement of audited unsigned annual report and accounts	11 September 2020
Issue of Annual Audit Report to those charged with governance	23 September 2020
Independent auditor's report signed by Audit Scotland	By 30 September 2020

### Internal audit

23. Internal audit is provided by ERC and is overseen by the Chief Internal Auditor. 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.

**24.** We will report any significant findings to management on a timely basis.

### 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 use the work of internal audit wherever possible to avoid duplication. We have considered 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 or effectively.

**26.** From our initial review of internal audit plans we do not plan to use the work of internal audit as part of our audit of the 2019/20 accounts.

### 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.

**29.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

### Financial sustainability

**30.** 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

**31.** 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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how the ERIJB 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

**32.** 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 ERIJB 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

**33.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the ERIJB 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

**34.** 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

**35.** 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.

**36.** The engagement lead (i.e. appointed auditor) for the ERIJB is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor, John Cornett, 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 ERIJB.

### Quality control

**37.** 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.

**38.** 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.

**39.** 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.

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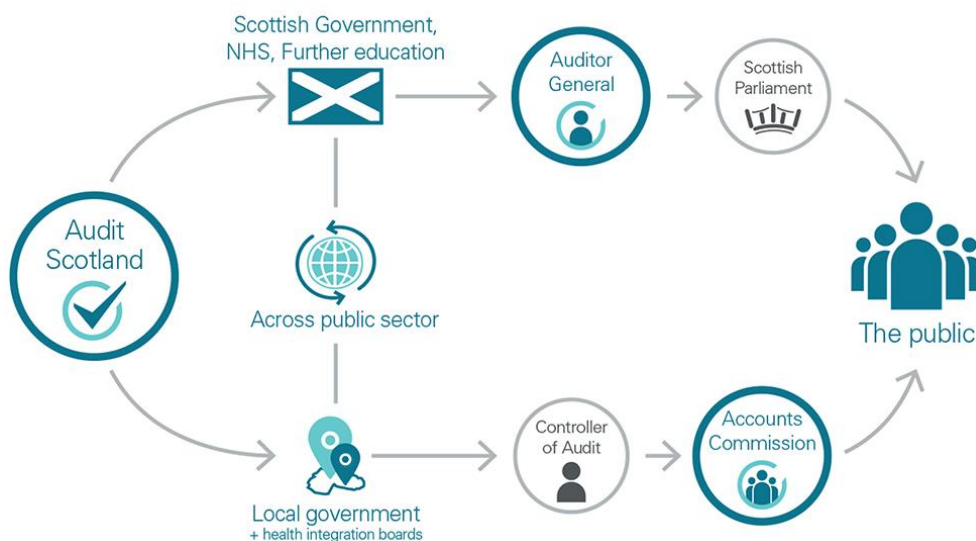


## Appendix 1: Who we Are

### 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.

# East Renfrewshire Health and Social Care Partnership Integration Joint Board

## Annual Audit Plan 2019/20 - DRAFT

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