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Agenda Item: 5.

## **Integration Joint Board – Audit Committee**

Date of Meeting: 13 March 2019.

Subject: Orkney Integration Joint Board's Annual Audit Plan for 2018 to 2019 by Audit Scotland

### **1. Summary**

1.1. This report introduces Audit Scotland's Orkney Integration Joint Board Annual Audit Plan for 2018 to 2019.

### **2. Purpose**

2.1. To present the plan which contains an overview of the planned scope and timing of Audit Scotland's annual audit.

### **3. Recommendations**

The Audit Committee is invited to:

3.1. Note the external audit plan for 2018 to 2019, prepared by Audit Scotland, attached as Appendix 1 to this report.

### **4. Background**

4.1. Audit Scotland is the appointed external auditor for the Integration Joint Board for the period 2018 to 2019.

4.2. The auditor's responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and are guided by the auditing profession's ethical guidance.

4.3. Following the conclusion of each year's planning process, the external auditor prepares an annual audit plan which outlines the work to be undertaken as part of the annual audit of the Integration Joint Board. The plan also sets out the ways in which Audit Scotland will meet their respective responsibilities under the Code of Audit Practice.

## 5. Audit Findings

5.1. The plan, attached as Appendix 1, identifies the work required to provide an opinion on the financial statements and related matters.

5.2. The plan details the main risk areas for the Integration Joint Board which have been categorised into financial risks and wider dimension risks on page 4 to 7 within the Appendix.

## 6. Contribution to quality

The table below indicates which of the Council Plan 2018 to 2023 and 2020 vision/quality ambitions are supported in this report:

<b>Promoting survival:</b> To support our communities.	No.
<b>Promoting sustainability:</b> To make sure economic, environmental and social factors are balanced.	No.
<b>Promoting equality:</b> To encourage services to provide equal opportunities for everyone.	No.
<b>Working together:</b> To overcome issues more effectively through partnership working.	Yes.
<b>Working with communities:</b> To involve community councils, community groups, voluntary groups and individuals in the process.	No.
<b>Working to provide better services:</b> To improve the planning and delivery of services.	Yes.
<b>Safe:</b> Avoiding injuries to patients from healthcare that is intended to help them.	Yes.
<b>Effective:</b> Providing services based on scientific knowledge.	Yes.
<b>Efficient:</b> Avoiding waste, including waste of equipment, supplies, ideas, and energy.	Yes.

## 7. Resource implications and identified source of funding

7.1. The proposed audit fee for the 2018 to 2019 audit is £25,000. This is a 4.2% increase from 2017 to 2018 (£24,000).

## 8. Risk and Equality assessment

8.1. There are no risk or equality implications associated with this report.

## 9. Direction Required

Please indicate if this report requires a direction to be passed to:

NHS Orkney.	No.
Orkney Islands Council.	No.
Both NHS Orkney and Orkney Islands Council.	No.

## 10. Escalation Required

Please indicate if this report requires escalated to:

NHS Orkney.	No.
Orkney Islands Council.	No.
Both NHS Orkney and Orkney Islands Council.	No.

## 11. Author

11.1. Pat Robinson (Chief Finance Officer), Integration Joint Board.

## 12. Contact details

12.1. Email: [pat.robinson@orkney.gov.uk](mailto:pat.robinson@orkney.gov.uk), telephone: 01856 873535, extension 2603.

## 13. Supporting documents

13.1. Appendix 1: Orkney Integration Joint Board Annual Audit Plan 2018 to 2019.

# Orkney Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Orkney IJB Audit Committee

March 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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements 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 Orkney Integration Joint Board 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 Orkney 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 main risk areas for Orkney Integration Joint Board. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).


## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls 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>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Service auditor assurances will be obtained from the auditors of Orkney Island Council and NHS Orkney over the completeness, accuracy and allocation of the income and expenditure.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
2	<p><b>Financial reporting</b></p> <p>Orkney Integration Joint Board requires to implement a quality assurance process to help support the Chief Finance Officer in preparing the annual report and accounts to ensure the content is clear, concise and adheres to guidance prior to submission for audit.</p> <p>This is an essential process due to the audit timescale being shorter than in previous years.</p>	<p>The Senior Management Team will scrutinise and amend the annual report and accounts, as appropriate, prior to the draft being submitted within specified timescales.</p>	<ul style="list-style-type: none"> <li>We will liaise with key officers to ensure a quality assurance process is in place and the audit of the financial statements is not delayed as a result of the quality of the financial statements received for audit.</li> </ul>
3	<p><b>Projected financial outturn</b></p> <p>The financial monitoring report at the end of November 2018 indicates that the Orkney Integration Joint Board will be left with an unfunded overspend of £0.944 million at the year end.</p> <p>There is a risk that overspends may require additional payments from the council and health board and that there may be difficulties in producing a balanced outturn in future years.</p>	<p>As at 31 January 2019 the projected overspend is £0.743m (£0.243m NHS, £0.500m OIC). A letter has been sent to the Directors of Finance on 20th Feb19 to verify year end spend with the aim to have a balanced budget.</p>	<ul style="list-style-type: none"> <li>Ensure budget monitoring is robust and accurately reflects the financial position.</li> <li>Confirmation of compliance with Orkney Integration Scheme.</li> <li>Review of recovery plans put in place by partners for reasonableness.</li> </ul>
4	<p><b>Clarity on services for which the Orkney Integration Joint Board is responsible</b></p> <p>Additional services have been transferred from NHS Orkney to the Orkney Integration Joint Board in 2018/19, along with the funding. However, it is unclear whether this is the transfer of all the services (and funding) for which the Orkney Integration Joint Board is responsible.</p> <p>There is a risk that not all commissioned services have been transferred over to Orkney Integration Joint Board.</p>	<p>Chief Finance Officer plans to discuss further with NHS Orkney on whether further services (and funding) should be transferred to the Orkney Integration Joint Board.</p>	<ul style="list-style-type: none"> <li>Monitor outcome of the review, providing comment in our annual audit report 2018/19.</li> <li>Confirmation that all relevant services have been identified and transferred by 31 March 2019.</li> </ul>
<b>Wider dimension issues and risks</b>			
5	<p><b>Change of Chief Internal Auditor</b></p> <p>The Chief Internal Auditor left her post with effect from 16 November 2018.</p> <p>Until a replacement is in post, there is a risk that full compliance with the Public Sector Internal Audit Standards cannot be demonstrated nor the operational audit plan completed.</p>	<p>The experienced internal audit team are in place to undertake the Orkney Integration Joint Board audit reviews and the new Chief Internal Auditor will commence the post on the 25 February to ensure work is finalised prior to year-end.</p>	<ul style="list-style-type: none"> <li>Personnel arrangements and completion of the operational audit plan will be monitored, providing comment in our annual audit report 2018/19.</li> </ul>



 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>6 Financial sustainability</b></p> <p>The 2018/19 budget for Orkney Integration Joint Board requires the delivery of £1.448 million of savings during the year to breakeven. The budget has not been approved by Orkney Integration Joint Board as plans to achieve £1.138 million of the savings are still unidentified.</p> <p>There is a risk that Orkney Integration Board is not able to develop appropriate budgets each year if full saving plans are not in place.</p>	<p>The overspend has been highlighted at the Orkney Integration Joint Board meetings, OHAC Committee and Finance &amp; Performance.</p> <p>Within the recovery plan it highlights that out of the original £1.448m savings target there has been £728k identified leaving a shortfall of £720k. As we may not achieve a balanced year end budget there has been correspondence with both partners in relation to obtaining additional funds as per the integration scheme.</p> <p>A budget setting timeline report for 2019/20 was also agreed at the November 2018 Orkney Integration Joint Board meeting.</p>	<ul style="list-style-type: none"> <li>Monitor progress with approving the 2018/19 budget and achieving agreed efficiency savings providing comment in our annual audit report 2018/19.</li> </ul>
<p><b>7 Longer-term financial planning</b></p> <p>Orkney Integration Joint Board does not currently have a medium to longer term financial plan in place.</p> <p>There is a risk that the Orkney Integration Joint Board may not be able to identify sustainable saving measures or cost pressures as they arise.</p> <p>A key element of this is the development of a medium – long term financial plan to ensure members of the board are aware of the cost pressures facing Orkney Integration Joint Board which could affect future service delivery.</p>	<p>A 3-year medium term financial plan is being developed and Chief Finance Officer plans to present to the Orkney Integration Joint Board in June 2019.</p>	<ul style="list-style-type: none"> <li>Monitor progress with preparing a medium-term financial plan providing comment in our annual audit report 2018/19.</li> </ul>
<p><b>8 GDPR review</b></p> <p>Orkney Integration Joint Board has not reported to members the impact of GDPR on the Board and partner organisations.</p> <p>There is a risk that Orkney Integration Joint Board could be in breach of its statutory responsibilities under GDPR.</p>	<p>A paper will be submitted to the Orkney Integration Joint Board giving assurance from both partners on GDPR compliance by June 2019.</p>	<ul style="list-style-type: none"> <li>Monitor progress with providing members with assurance on GDPR compliance, providing comment in our annual audit report 2018/19.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
9	<p><b>Integration scheme review</b></p> <p>Orkney Integration Joint Board Integration Scheme currently includes a section (2.10.7.5) which states that any additional payments paid by partner bodies may be deducted from future years' funding.</p> <p>There is a risk that this will compound any funding gap. At present it is challenging to achieve in-year balanced budgets without further reductions due to previous year overspends.</p>	<p>A letter has been sent to the Directors of Finance of both partners in regard to the current overspend position and it has been highlighted the recommendations from the internal and external audit reports highlighting the issues of carrying forward overspends.</p> <p>At present, there is no indication of section 2.10.7.5 being removed following informal discussions with partner bodies. However, this will be re-considered as part of the next review of the integration scheme being undertaken during 2019/20.</p>	<ul style="list-style-type: none"> <li>• Confirmation of agreement of funding and balances with host bodies.</li> <li>• Confirmation of proposed changes to the integration scheme providing comment in our annual audit report 2018/19.</li> </ul>
10	<p><b>Risk register</b></p> <p>The risk management strategy indicates that the risk register should be reviewed at least on a six-monthly basis.</p> <p>The current risk register was last updated and presented to the Board in June 2018.</p> <p>There is a risk that Board members are not up to date with significant risks, the associated mitigating actions, and, ultimately, the basis for key decisions. It may also mean that the risk register is out of date.</p>	<p>Management plan to review the risk register and report to the Orkney Integration Joint Board meeting in early 2019.</p>	<ul style="list-style-type: none"> <li>• We will monitor progress in reviewing the risk management process, providing comment in our annual audit report 2018/19.</li> </ul>

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 Orkney Integration Joint Board and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2

### 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2019	13 March 2019
Annual Audit Report including ISA 260 requirements	19 August 2019	29 August 2019
Signed Independent Auditor's Report	30 September 2019	30 August 2019

Source: Audit Scotland

### Audit fee

**8.** The agreed audit fee for the 2018/19 audit of Orkney Integration Joint Aboard is £25,000 (2017/18: £24,000). In determining the audit fee, we have taken account of the risk exposure of Orkney 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 28 June 2019.

**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 outwith 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 the Local Government (Scotland) Act 1973 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 Orkney 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 Orkney 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.

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

- give a true and fair view of the state of affairs of Orkney Integration Joint Board as at 31 March 2019 and of the income and expenditure of Orkney Integration Joint Board for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Other information in the annual accounts

**16.** We also review and report on 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 read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

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

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for 2017/18	£0.540 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 50% of planning materiality.	£0.270 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.	£0.005 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
Consideration of unaudited annual accounts by those charged with governance	26 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	28 June 2019
Latest date for final clearance meeting with Chief Finance Officer	26 July 2019
Agreement of audited unsigned annual accounts and issue of Annual Audit Report to those charged with governance	19 August 2019
Independent auditor's report signed	30 August 2019

## Internal audit

**21.** Internal audit is provided by the Internal Audit section of Orkney Islands Council overseen by a 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 Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**22.** 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 or effectively.

**23.** In respect of our wider dimension audit responsibilities we plan to consider internal audit work in the following areas:

- Locality Planning Groups
- Strategic Commissioning Plan – Achievement and Measurement of Future Directions
- Governance, Risk Management and Control.

## Audit dimensions

**24.** 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

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

### Financial sustainability

**26.** 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
- whether Orkney Integration Joint Board can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

## Financial management

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

## Governance and transparency

**28.** 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 Orkney Integration Joint Board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

## Value for money

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

- Orkney Integration Joint Board can provide evidence that it is demonstrating value for money in the use of its resources
- Orkney Integration Joint Board can demonstrate that there is a clear link between money spent, output and outcomes delivered
- Orkney Integration Joint Board can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

## Independence and objectivity

**30.** 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.

**31.** The engagement lead for Orkney Integration Joint Board is Gillian Woolman, 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 Orkney Integration Joint Board.

## Quality control

**32.** 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.

**33.** 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.

**34.** 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.



# Orkney Integration Joint Board

## Annual Audit Plan 2018/19

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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