

REPORT

Item No:

| | |
|---------------------------------|--|
| SUBJECT: | Annual External Audit Plan and Audit Fee 2018/2019 |
| TO: | Performance, Finance and Audit Committee |
| Lead Officer for Report: | Chief Accountable Officer |
| Author(s) of Report | Chief Financial Officer |
| DATE: | 19 February 2019 |

1. PURPOSE OF REPORT

1.1 This paper is coming to the Performance, Finance and Audit (PFA) Committee:

| | | | | | |
|--------------|-------------------------------------|-----------------|--------------------------|------------|--------------------------|
| For approval | <input checked="" type="checkbox"/> | For endorsement | <input type="checkbox"/> | For noting | <input type="checkbox"/> |
|--------------|-------------------------------------|-----------------|--------------------------|------------|--------------------------|

1.2 This report:-

- (1) Provides details of the External Auditor's Annual Audit Plan for 2018/2019; and
- (2) Advises the PFA Committee of the external audit fee for the North Lanarkshire Integration Joint Board.

2. ROUTE TO THE PERFORMANCE, FINANCE AND AUDIT COMMITTEE:

2.1 This paper has been:

| | |
|---|---|
| Prepared By; Chief Financial Officer | Reviewed By; Chief Accountable Officer |
|---|---|

3. RECOMMENDATIONS

3.1 The Performance, Finance and Audit (PFA) Committee is asked to agree the following recommendations:

- (1) That the content of the report is noted; and
- (2) That the External Auditor's proposed fee of £25,000 is noted.

4. BACKGROUND/SUMMARY OF KEY ISSUES

4.1 The Public Bodies (Joint Working) (Scotland Act) 2014 established the framework for health and social care in Scotland and the formation of Integration Joint Boards (IJBs). Each IJB is required to prepare annual accounts and have them audited in accordance with Part VII of the Local Government (Scotland) Act 1973.

4.2 Audit Scotland was appointed by the Accounts Commission and the Auditor General as the external auditors of the North Lanarkshire IJB from 2016/2017 to 2020/2021.

5. CONCLUSIONS

5.1 The External Audit Plan for 2018/2019 has been discussed and agreed with both the Chief Officer and the Chief Financial Officer.

5.2 The proposed external audit fee is £25,000 for 2018/2019. This has been set in line with the Audit Scotland approach to fee setting arrangements. The fee is based on an assumption that there are sound governance arrangements in place which are operating effectively throughout

the year and that comprehensive and accurate draft accounts are prepared in line with the agreed timetable for the audit.

6. EXTERNAL AUDIT ANNUAL AUDIT PLAN 2018/2019

6.1 The External Auditor has provided an overview of the planned scope and timing of their audit work and this is set out in the attached appendix for information.

7. AUDIT FEE FOR 2018/2019

7.1 The following local circumstances were taken into consideration in the assessment of audit needs in preparing the 2018/19 fee proposal:

- an assessment of the local risk areas for the integration joint board
- an assessment of the governance and accountability arrangements, the control environment and the risk assessment procedures
- an initial review of internal audit and the reliance that can be placed on its work
- a review of the outcomes from previous audits
- a review of the arrangements for producing the financial statements
- any issues that may impact on the audit opinion

7.2 Audit Scotland sets the auditor remuneration based on its assessment of the work likely to be needed to deliver the audit. The figure also includes an allocation of pooled costs, performance audit and best value costs and audit support costs. It is therefore proposed that the external audit fee is set at the Audit Scotland Services Group standard fee applicable to IJBs which is £25,000 for 2018/2019. The expected fee assumes that the IJB has sound governance arrangements in place, is operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

8. IMPLICATIONS

8.1 NATIONAL OUTCOMES

Sound governance and financial sustainability are integral to the achievement of the nine health and wellbeing outcomes.

8.2 ASSOCIATED MEASURE(S)

None.

8.3 FINANCIAL

This paper has been reviewed by Finance:

| | | | | | |
|-----|-------------------------------------|----|--------------------------|-----|--------------------------|
| Yes | <input checked="" type="checkbox"/> | No | <input type="checkbox"/> | N/A | <input type="checkbox"/> |
|-----|-------------------------------------|----|--------------------------|-----|--------------------------|

The cost of the proposed external audit fee of £25,000 will be met from within existing resources.

8.4 PEOPLE

None.

8.5 INEQUALITIES

EQIA Completed:

| | | | | | |
|-----|--------------------------|----|--------------------------|-----|-------------------------------------|
| Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | N/A | <input checked="" type="checkbox"/> |
|-----|--------------------------|----|--------------------------|-----|-------------------------------------|

8.6 CARBON MANAGEMENT IMPLICATIONS

| | | | | | |
|-----|--------------------------|----|--------------------------|-----|-------------------------------------|
| Yes | <input type="checkbox"/> | No | <input type="checkbox"/> | N/A | <input checked="" type="checkbox"/> |
|-----|--------------------------|----|--------------------------|-----|-------------------------------------|

9. BACKGROUND PAPERS

None.

10. APPENDICES

North Lanarkshire Integration Joint Board – Annual Audit Plan 2018/2019

Appendix

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CHIEF ACCOUNTABLE OFFICER (or Depute)

Members seeking further information about any aspect of this report, please contact Marie Moy on telephone number 01698 453709.

North Lanarkshire Integration Joint Board

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

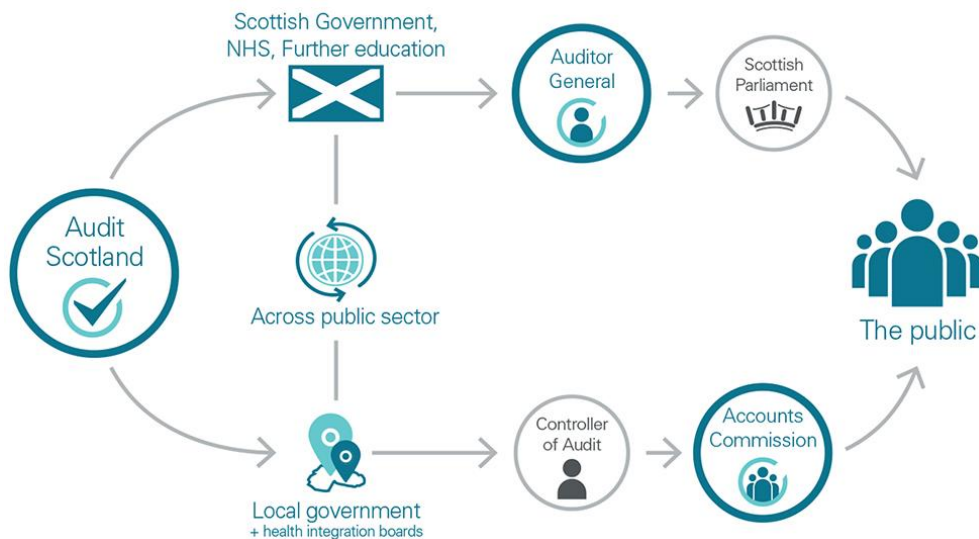
Prepared for North Lanarkshire Integration Joint Board

February 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. Our audit of North Lanarkshire Integration Joint Board (the Integration Joint Board) is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and other relevant guidance. This annual audit plan contains an overview of the planned scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to 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 Integration Joint Board 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 Integration Joint Board promote improved standards of governance, better management, and decision making, and more effective use of resources.

Audit risks

4. Building on our knowledge from previous years, discussions with staff, attendance at committee meetings and a review of supporting information we have identified a number of key financial and wider dimension audit risks. These risks are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

|  Audit Risk | 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 significant 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><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></p> | <ul style="list-style-type: none"> Assurance from host body auditors on the accuracy and completeness of year end financial reports. Detailed testing of significant adjustments at year end. On-going review of financial position. |
| <p>2 Remuneration report</p> <p>There has been a change at senior officer level in the year with Ross McGuffie taking on the role of Interim Chief Accountable Officer.</p> | <p>Compliance with the statutory legislation and the guidance from the Scottish Government on remuneration disclosures (Finance Circular 8/2011).</p> <p>Supporting documentation from</p> | <ul style="list-style-type: none"> Early engagement with Chief Financial Officer to ensure that the remuneration report is prepared in accordance with relevant guidance. |

|  | Audit Risk | Source of assurance | Planned audit work |
|---|---|---|--------------------|
| | There is a risk that this change is not presented correctly in the remuneration report. | the North Lanarkshire Council payroll system. | |

Wider dimension issues and risks

| | | | |
|-----------------|--|--|--|
| <p>3</p> | <p>Financial management</p> <p>Our 2017/18 annual audit of the Integration Joint Board identified a number of required improvements in this area including:</p> <ul style="list-style-type: none"> • timing of the quarter 1 financial report, • availability of year end forecasts, • clarity on the treatment of over and underspends on hosted services <p>There is a risk that financial pressures are not identified and managed in a timely manner. There is also potential for disagreement between host bodies at the year end if the responsibility for the management of financial resources is not clear.</p> | <p>Review of the finance reports to the IJB and the Performance, Finance and Audit Committee.</p> <p>Confirmation that both the North Lanarkshire IJB and the South Lanarkshire IJB continue to endorse the principles of the hosted services arrangement set out in the Integrated Resources Advisory Group Finance Guidance.</p> | <ul style="list-style-type: none"> • Ongoing review of financial monitoring reports • Review and report on progress against 2017/18 audit recommendations. |
| <p>4</p> | <p>Financial sustainability</p> <p>There are no medium to long term financial plans in place. Audit Scotland is encouraging councils and health boards to develop medium and long term financial plans and we expect Integration Joint Boards to do this too.</p> <p>There is a risk that the Integration Joint Board is unable to manage and respond to significant financial risks, other than on a short term basis.</p> | <p>Development of a medium to long term financial plan.</p> | <ul style="list-style-type: none"> • Review and report on progress against 2017/18 audit recommendation. |

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs will be published on our website: 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 officers to confirm factual accuracy.

7. We will provide the Integration Joint Board and the Accounts Commission, with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit. We will also issue an independent auditor's report containing our opinion on the financial statements.

Exhibit 2

2018/19 Audit outputs

| Audit Output | Target date | Committee Date |
|------------------------------|--------------------|-------------------|
| Annual Audit Plan | 8 February 2019 | 19 February 2019 |
| Annual Audit Report | 30 September 2019* | 24 September 2019 |
| Independent Auditor's Report | 30 September 2019* | 24 September 2019 |

*These dates represent the certification deadline for the 2018/19 IJB accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts.

Audit fee

8. The proposed audit fee for the 2018/19 audit of North Lanarkshire Integration Joint Board is £25,000 (2017/18: £24,000). In determining the audit fee, we have taken account of the risk exposure of the 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 working papers, by 14 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

Chief Accountable Officer and Performance, Finance and Audit Committee

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 that enable them to successfully deliver their objectives.

11. The audit of the annual accounts does not relieve management or the Performance, Finance and 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 and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

14. The audit of the annual accounts will be the foundation and source for most of the 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 Integration Joint Board and the associated risks
- assessing the key systems of internal control, and establishing the impact of any weaknesses identified
- identifying major transaction streams, balances and areas of estimation and understanding how the 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 from 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 the Integration Joint Board and its income and expenditure;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 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 2003.

Other information in the annual accounts

16. We 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 statements have been compiled in accordance with the appropriate regulations and frameworks.

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 supports our opinions in the independent auditor's report.



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

Exhibit 3 Materiality values



| Materiality | 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 2019 based on the latest audited accounts. | £6 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 50% of planning materiality. This judgement is based on the expectation of a low level of estimation and error and the assurance we plan to place on the work of the partner body auditors. | £3 million |
| Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold'. This has been calculated at 2% of planning materiality (rounded up to the nearest £50,000). | £150,000 |

Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is critical that an annual accounts timetable is agreed with us. The agreed timetable is provided at [Exhibit 5](#).

Exhibit 5 Annual accounts timetable North Lanarkshire Integration Joint Board

|  Key stage |  Date |
|---|--|
| Consideration of unaudited annual accounts by those charged with governance | 12 June 2019 |
| Submission of unaudited annual accounts with working papers to audit | 14 June 2019 |
| Issue of draft annual audit report for clearance | 27 August 2019 |
| Latest date for final clearance meeting with Chief Financial Officer | 3 September 2019 |
| Issue of annual audit report and proposed independent auditor's report for Performance, Finance and Audit Committee consideration | 13 September 2019 |
| Consideration of audited annual accounts and audit reporting by those charged with governance | 24 September 2019 |
| Latest date for signing of independent auditor's report | 30 September 2019 |

Source: Audit Scotland

Internal audit

21. Internal audit is provided by North Lanarkshire Council and NHS Lanarkshire. As part of our planning process we carried out an early assessment of the internal audit function and concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

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. As part of our wider dimension audit work we plan to consider internal audit's work on performance management and assurance mapping. There are no planned internal audit reviews that would impact on our financial statements audit work.

Audit dimensions

23. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

Exhibit 6 Audit dimensions



Source: Code of Audit Practice

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 Integration Joint Board's financial sustainability in the medium term (two to five years) and longer term (greater than five years). 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 funding 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 the Integration Joint Board:

- has arrangements in place to ensure systems of internal control are operating effectively
- can demonstrate the effectiveness of the budgetary control system
- 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. The knowledge and skills of the Performance, Finance and Audit Committee and its board members is key to this process. We will review, conclude and report on:

- whether the Integration Joint Board can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making
- 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 the Integration Joint Board can provide evidence that it is demonstrating value for money in the use of resources, has focus on improvement and that there is a clear link to the outcomes delivered.

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 robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. These arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

29. The engagement lead (i.e. appointed auditor) for North Lanarkshire Integration Joint Board is Brian Howarth, 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 North Lanarkshire Integration Joint Board.

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 Accounts Commission. To ensure that we achieve the required

quality standards Audit Scotland conducts peer reviews and internal quality reviews. The Institute of Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

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.

North Lanarkshire Integration Joint Board North Lanarkshire Integration Joint Board

Annual Audit Plan 2018/19

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