



PERTH & KINROSS HEALTH AND SOCIAL CARE
INTEGRATION JOINT BOARD MEETING – 23 MARCH 2016

EXTERNAL AUDIT PLAN

REPORT BY JANE SMITH, CHIEF FINANCE OFFICER

1.0 PURPOSE OF REPORT

1.1 To note the External Audit plan for the financial year 2015/16.

2.0 RECOMMENDATIONS

It is recommended that the Integration Joint Board:-

- (i) note the background to the requirements for the IJB to produce a formal set of financial accounts for financial year 2015/16 and likely content,
- (ii) note the arrangements for providing External Audit scrutiny of those accounts, and
- (iii) note the External Audit plan for 2015/16.

3.0 BACKGROUND

3.1 Requirement to Produce a formal set of Financial Accounts for 2015/16

Guidance from IRAG (Integrated Resources Advisory Group) and LASAAC (The Local Authority Scotland Accounts Advisory Group) sets out the requirement for production of formal accounts for year 2015/16. The guidance covers issues such as the start date of the IJB (noting period reflected in the accounts will be from date the IJB was formally established), the types of costs that may need reflected in formal accounts (e.g. costs of Chief Officer, costs of External Audit) and the content of the formal annual accounts (e.g. remuneration report, Service Expenditure Analysis).

The requirements for 2016/17 will be quite different as the period after the formal adoption of the Strategic Plan will include reference to the costs of services the IJB is directing through Partner agencies (Perth & Kinross Council and NHS Tayside).

In line with national guidance, Perth & Kinross IJBs accounts will be produced in a manner consistent with Local Authority accounting and in compliance with The Code of Practice on Accounting for Local Authorities in the United Kingdom. As the IJBs annual accounts are produced in line with Local Authority principles, support in the production of these accounts will be provided by the Local Authority as part of the Corporate Support Services arrangements.

3.2 External Audit Arrangements

As the accounts are being produced in accordance with Local Authority accounting principles, so the national position has been determined that the External Audit of the IJB's accounts will be undertaken by the relevant Local Authority's existing External Auditor. For Perth & Kinross IJB and Perth & Kinross Council this is Audit Scotland.

The Chief Finance Officer met the External Auditor in February to discuss the production and audit of 2015/16 annual accounts and there was an initial agreement regarding a number of principles (e.g. scale of content) all subject to compliance with national guidance and any further national guidance.

3.3 External Audit Plan – 2015/16

Perth & Kinross IJB's External Auditors have now produced an External Plan for 2015/16. This is attached at Appendix 1 for information. The Audit will be undertaken in a timescale consistent with national guidance with intention that accounts are formally approved in June 2016.

4.0 FINANCIAL IMPLICATIONS

- 4.1 The only direct financial implications from the completion of an External Audit is the cost of the Audit itself. Audit Scotland have intimated that the 2015/16 Audit Fee will be £5000 in line with similar audits elsewhere in Scotland for IJBs at the same stage of development. These Audit Fees will be covered, in the first year only, from Transitional Funding received from the Scottish Government (*TBC). The Audit fees for future years will be higher reflecting the formal adoption of the strategic plan and the changes that initiates.

Jane Smith
Chief Finance Officer
Perth & Kinross Integration Joint Board

March 2016



Perth & Kinross Integration Joint Board

Annual Audit Plan 2015/16

Prepared for Members of Perth & Kinross Integration
Joint Board

March 2016



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The Accounts Commission is a statutory body which appoints external auditors to Scottish public bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Stephen Boyle as the external auditor of Perth & Kinross Integration Joint Board for 2015/16.

This report has been prepared for the use of Perth & Kinross Integration Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Perth & Kinross Integration Joint Board's (the board) financial statements.
2. This report summarises the key challenges and risks facing the board and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing the board
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission.

Summary of planned audit activity

3. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of the board as at 31 March 2016 and its income and expenditure for the year then ended

- the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- a review and assessment of the board's governance and performance arrangements in a number of key areas
- collection of relevant financial and performance information to inform Audit Scotland's national reports.

Responsibilities

4. The audit of the financial statements does not relieve management or the Perth & Kinross Integration Joint Board (or a committee whose remit includes audit or governance), as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by The Public Bodies (Joint Working) (Scotland) Act 2014, The Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Under the Local Government (Scotland) Act 1973, the Accounts Commission is responsible for appointing the external auditors of local government bodies including councils, joint boards and bodies falling within section 106 of the Act. The Public Bodies (Joint Working) (Scotland) Act 2014 specifies that Integration Joint Boards should be treated as if they were bodies falling within section 106 of the 1973 Act.
7. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Chief Financial Officer

8. It is the responsibility of the Chief Financial Officer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - maintaining proper accounting records
 - preparing financial statements which give a true and fair view of the state of affairs of the board as at 31 March 2016 and its expenditure and income for the period then ended.

Format of the accounts

9. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.

Audit Approach

Our approach

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the board. This approach includes:
 - understanding the business of the board and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how the board will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
11. The board was established as a legal entity on 3 October 2015 and as such, it is required to prepare financial statements for 2015/16. However, it will not be until 1 April 2016 that it assumes operational responsibility for services. We expect that there will only be a small number of financial transactions in 2015/16.
12. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a working papers package.
13. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are to be provided by Fife, Tayside and Forth Valley Audit and Management Services (FTF) a consortium based service that provides internal audit services to NHS Fife, NHS Tayside, NHS Forth Valley, NHS Lanarkshire and NHS Health Scotland. FTF were appointed as internal auditors in November 2015. A service level agreement and a 2015/16 internal audit plan are to be developed and agreed. It is anticipated that the 2015/16 internal audit plan will cover issues such as due diligence, strategic

planning, governance structures and the production of an annual report. We will take cognisance of internal audit work during the 2015/16 audit. Progress on delivery of the internal audit plan will be reported to the board on a regular basis.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

16. Based on our knowledge and understanding of the board we would have set our planning materiality at 1% of gross expenditure. We also normally set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our

planning materiality. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- extent of audit testing coverage

17. However the audit approach will be amended this year as this represents the first year of the board, and to take account of the limited amount of transactions and balances contained within the financial statements. The planning and performance materiality will therefore be evaluated on receipt of the unaudited 2015/16 financial statements.

Reporting arrangements

18. The board is subject to the audit and accounts provisions of a body under Section 106 of the Local Government (Scotland) Act 1973.

The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited accounts are submitted to the appointed external auditor no later than 30 June each year. The Perth & Kinross Integration Joint Board (or a committee whose remit includes audit or governance) is required to consider the unaudited accounts at a meeting by 31 August.

19. In addition NHS Tayside is required to submit audited accounts by 30 June each year. Financial and non-financial information will be required by a mutually agreed date that allows NHS Tayside to meet its statutory obligations. This information should, as a minimum, include details of balances held at the year-end, the transactions in

the year and a schedule of other information including assurances needed for the governance statement. Guidance issued by the Scottish Government proposes agreement of in-year transactions and year-end balances by 30 April.

20. The board must publish the unaudited accounts on its websites and give public notice of the inspection period.
21. The 2014 regulations require the Perth & Kinross Integration Joint Board (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited accounts for signature. Immediately after approval, the accounts require to be signed and dated by specified members and officers, and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
22. The board is required to publish on its website its signed audited accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.
23. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	Jan 2016
Agreement of transactions and balances with relevant local authority and health board	30 Apr 2016
Consideration of unaudited financial statements by those charged with governance	26 Aug 2016
Latest submission date of unaudited financial statements with complete working papers package	30 June 2016
Progress meetings with officers on emerging issues	As required
Latest date for final clearance meeting with officers	19 Aug 2016
Agreement of audited unsigned financial statements, and issue of Annual Audit Report	26 Aug 2016
Independent auditor's report signed	26 Aug 2016

24. Matters arising from our audit will be reported on a timely basis. Draft management reports will be issued to relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of final agreed reports will be sent to the Chief Officer, Chief Financial Officer, internal audit, and Audit Scotland's Performance Audit and Best Value Group. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

25. We will provide an independent auditor's report to the board and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The Annual Audit Report will be issued by 30 September 2016. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.

Quality control

26. 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. This is to provide reasonable assurance that those 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.

27. 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 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 and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

28. 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 do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen Boyle.

Independence and objectivity

29. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.
30. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise officer of the circumstances and of the steps we have taken to manage this. We have advised the Chief Officer of any relationships that may impact on the audit of Perth & Kinross Integration Joint Board.

Audit issues and risks

Audit issues and risks

31. Based on our discussions with staff, review of committee papers and a review of supporting information we have identified the following main risk areas for the board. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

Financial statement issues and risks

32. **Financial statements:** The financial statements for the board have to be prepared for the first time for the period from October 2015 to 31 March 2016. The responsibility for the preparation of the financial statements is highlighted above (paragraph 8). As the board is a new body it may not yet have the processes and procedures in place to provide the required financial information.
33. The Local Authority Accounts (Scotland) Regulations 2014 require that unaudited accounts are considered by the board by 31 August and that audited accounts are approved by the board prior to 30 September.
34. The regulations also require that the unaudited accounts are submitted to the appointed external auditor no later than 30 June each year. Further to the regulations the board is also expected to provide financial and non-financial information so that NHS Tayside

can meet its statutory reporting obligations. We will liaise with officers to ensure that the appropriate financial information is prepared, considered and approved in accordance recognised guidance.

Wider dimension issues and risks

35. **Financial, governance and performance framework – The Public Bodies (Joint Working) (Scotland) Act** received royal assent on 1 April 2014. This Act provided the framework for the integration of health and social care services in Scotland. An integration scheme has been agreed and the *Public Bodies (Joint Working) (Integration Joint Board Establishment) (Scotland) Amendment (No. 3) Order 2015* established Perth & Kinross Integration Joint Board on 3 October 2015.
36. A Chief Officer was appointed in September 2015 and a Chief Financial Officer appointed in January 2016. The first Perth & Kinross Integration Joint Board meeting was held in November 2015. This meeting established the overarching governance arrangements and committed the board to developing its governance and performance framework.
37. The Public Bodies (Joint Working) (Scotland) Act requires integration authorities to prepare strategic plans which set out their arrangements to achieve or contribute to national health and well being outcomes. The board approved the membership of a Strategic Planning Group and agreed a draft Strategic Plan for formal consultation in November 2015.

38. Audit Scotland published a national report *Health and social care integration* in December 2015. The national report highlighted:
- the need to set out clearly how governance arrangements will work in practice
 - that strategic plans do more than set out the local context for reforms. The plans should look to deliver care in different ways, that better meets people's needs and improves outcomes
 - the need to agree budgets for the board. The budgets should cover more than one year to give boards the continuity and certainty they need to develop and implement strategic plans. Boards should be clear about how they will use resources to integrate services and improve outcomes
39. We will monitor the board's implementation of its governance and performance framework.

National performance audit studies

40. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

Fees and resources

Audit fee

41. In determining the audit fee we have taken account of the risk exposure of the board, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2016.
42. The proposed audit fee for the 2015/16 audit of the board is £5,000. Our fee covers the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees.
43. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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.

Audit team

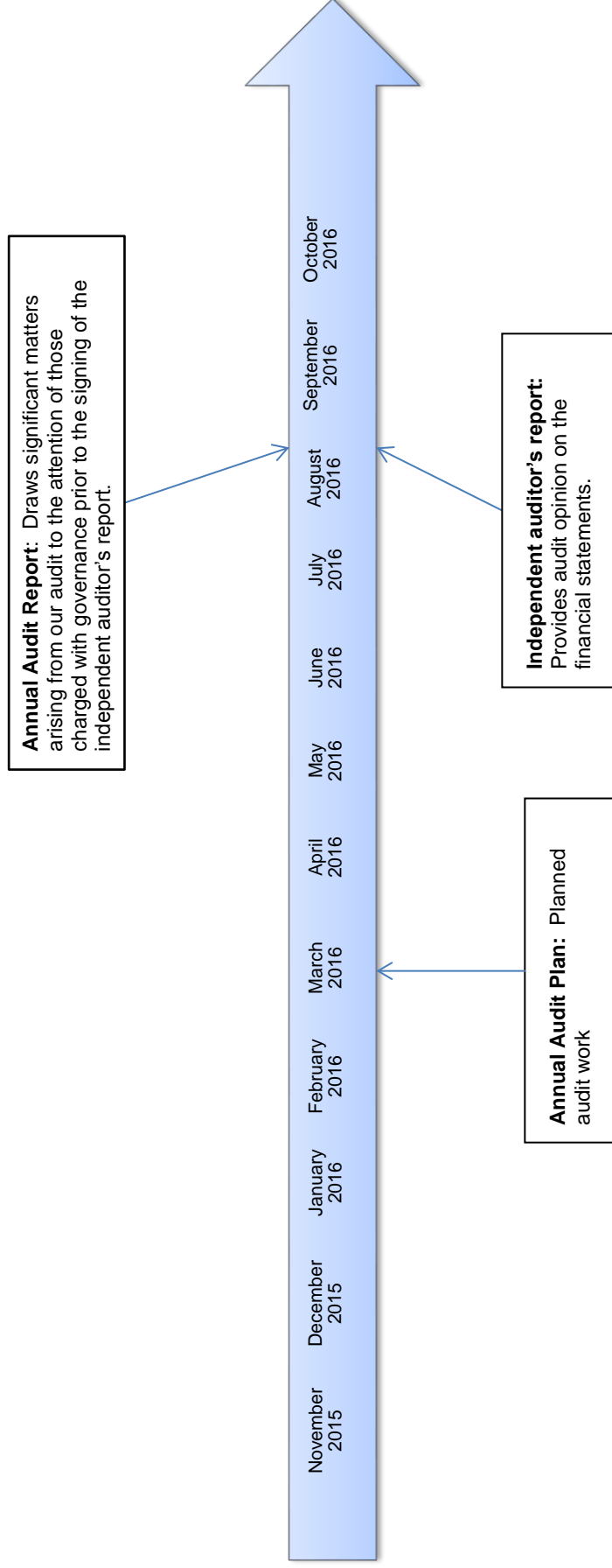
44. Stephen Boyle, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Neil O'Connor who will be responsible for day to day management of the audit and will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Stephen Boyle Assistant Director (and certifying auditor)	Stephen has 19 years experience of public sector finance. He trained as an accountant with a Big 4 firm, before joining Audit Scotland in 2002. He later worked as Head of Finance and Corporate Services for Cube Housing Association, before spending three years with Glasgow Housing Association as Assistant Director of Finance. He re-joined Audit Scotland in June 2013.
Neil O'Connor Senior Auditor	Neil took up post as Senior Auditor in April 1997. Neil trained as an auditor with Carters Chartered Accountants. He has 19 years experience auditing local government and the health sector.
Sean Dalziell Professional Trainee	Sean joined Audit Scotland as an ICAS professional trainee in 2014 having completed an MA (Hons) degree in Business Studies & Accountancy.
Wojciech Kuzma Professional Trainee	Wojciech joined Audit Scotland as an ICAS professional trainee in 2015. Wojciech graduated in 2011 with a MLitt degree in International Business.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for the board in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	<p>Financial Statements</p> <p>The responsibility of the Chief Financial Officer for the preparation of the financial statements is detailed in paragraph 8. The financial statements for the board have to be prepared for the first time in 2015/16 for the period from October 2015. The financial statements are required to be prepared in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom.</p> <p>The board is a new body and may not yet have the processes and procedures in place to provide the required financial information.</p> <p><i>Risk: Financial statements disclosures and supporting working papers will not be prepared to the required quality and by agreed timescales.</i></p>	<ul style="list-style-type: none"> Chief Finance Officer appointed. Closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff. Clear responsibilities for preparation of financial statements and the provision of supporting working papers. Delivery of unaudited financial statements and working papers package. 	<ul style="list-style-type: none"> Review the board's arrangements to ensure the proper conduct of its financial affairs.

#	Audit Risk	Source of assurance	Audit assurance procedure
2	<p>The Local Authority Accounts (Scotland) Regulations 2014</p> <p>The regulations stipulate that unaudited accounts are required submitted to external audit no later than 30 June and to be considered by the board by 31 August. The regulations also require that the audited accounts approved by the board by 30 September.</p> <p>Scottish Government guidance indicates that the board is also expected to provide financial and non-financial information so that NHS Tayside can meet its statutory reporting obligations.</p> <p><i>Risk: Regulation deadlines are not met or the required information is not supplied to NHS Tayside by the agreed date.</i></p>	<ul style="list-style-type: none"> • Submission to NHS Tayside and Perth & Kinross Council of in-year transactions and year-end balances by 30 April 2016. • Receipt of unaudited accounts. • Agree governance (committee) structures. • Consideration and approval of audited accounts by respective deadlines. 	<ul style="list-style-type: none"> • Confirm that the appropriate information is being submitted or considered/ approved timeously.

# Audit Risk		Source of assurance	Audit assurance procedure
3	<p>Wider dimension issues and risks</p> <p>Financial, governance and performance framework</p> <p>The Perth & Kinross Integration Joint Board was established in October 2015. The initial meeting of the board was in November 2015 where the overarching governance arrangements were established (including membership and standing orders). The Integration Scheme commits the board to developing a governance and performance framework covering a number of key areas. A budget for the board has yet to be agreed as part of Strategic Plan.</p> <p><i>Risk: Governance and performance arrangements are not fit for purpose.</i></p>	<ul style="list-style-type: none"> • Agree governance (committee) structures. • Strategic planning group established. • Draft strategic plan currently out for consultation. • Agree strategic plan and budgets. • Agree a performance framework. • Agree a workforce and organisational development strategy. • Risk management policy and strategy agreed with a risk register to be developed. • Agreed a clinical, care & professional governance framework. • Agreed participation & engagement strategy. • Developing any required information sharing agreements. • Due diligence considered. • A financial statement will be published by April 2016 outlining the total resources available and plans to manage the financial pressures facing it over the next three years. • Reviews of due diligence, strategic planning, governance structures by internal audit. 	<ul style="list-style-type: none"> • Monitor the implementation of the board's financial, governance and performance framework and inclusion in the annual audit report as appropriate.