

**Integration Joint Board
 Finance and Audit Committee**

Report By: Audit Scotland
Contact: Elaine Barrowman, Senior Audit Manager, Audit Scotland
Tel: 0131 625 1500

AUDIT SCOTLAND ANNUAL AUDIT PLAN 2015/16

Purpose of Report:	To provide the Glasgow City Integration Joint Board with the detail of Audit Scotland's Annual Audit Plan.
---------------------------	--

Recommendations:	To note the attached report.
-------------------------	------------------------------

Implications for IJB:

Financial:	None
-------------------	------

Personnel:	None
-------------------	------

Legal:	None
---------------	------

Risk Implications:	None
---------------------------	------

Sustainability:	None
------------------------	------

Economic Impact:	None
-------------------------	------

Sustainability:	None
------------------------	------

Sustainable Procurement and Article 19:	None
--	------

Equalities:	None
--------------------	------

Implications for Glasgow City Council:	None
---	------

Implications for NHS Greater Glasgow & Clyde:	None
--	------



Glasgow City Integration Joint Board

Annual Audit Plan
2015/16

Prepared for Members of Glasgow City IJB

April 2016

Key contacts

Gillian Woolman, Assistant Director
gwoolman@audit-scotland.gov.uk

Elaine Barrowman, Senior Audit Manager
ebarrowman@audit-scotland.gov.uk

Tom Reid, Senior Auditor
treid@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT
Telephone: 0131 625 1500
Website: www.audit-scotland.gov.uk

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 Gillian Woolman as the external auditor of Glasgow City Integration Joint Board for 2015/16.

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

Contents

Summary	3
Responsibilities	4
Audit Approach	5
Audit issues and risks	9
Fees and resources	10
Appendix 1: Planned audit outputs.....	12
Appendix 2: Significant audit risks	13

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Glasgow City Integration Joint Board's (IJB) financial statements.
 2. This report summarises the key challenges and risks facing Glasgow City IJB and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing Glasgow City IJB
 - 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 Accounts Commission.
- 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 Glasgow City IJB's governance and performance arrangements in a number of key areas including: internal controls and adequacy of internal audit.

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 Glasgow City IJB as at 31 March 2016 and its income and expenditure for the year then ended

Responsibilities

4. The audit of the financial statements does not relieve management or Glasgow City Integration Joint Board and the Finance and Audit Committee (FAC), as the bodies 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 IJBs 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 Officer, Finance and Resources

8. It is the responsibility of the Chief Officer, Finance and Resources, 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 Glasgow City IJB as at 31 March 2016 and its expenditure and income for the year 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 Glasgow City IJB. This approach includes:
- understanding the business of Glasgow City IJB 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 Glasgow City IJB 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. 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:

- clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package.
12. 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. The systems of internal control relating to the financial statements of Glasgow IJB are operated by Glasgow City Council. We will take assurance, wherever possible, from the work done on those systems by the internal audit section of Glasgow City Council.
13. As part of our planning process we carried out an assessment of the internal audit function. We 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.

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 Glasgow City IJB we have set our planning materiality at 1% of gross expenditure.
17. We 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.
18. Planning and performance materiality will be evaluated on receipt of the unaudited 2015/16 financial statements.
19. The audit approach will be amended to take account of the limited amount of transactions and balances contained within the financial statements.

Reporting arrangements

20. The IJB 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 annual accounts be submitted to the appointed external auditor no later than 30 June each year. The board (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
21. The health board 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 health boards to meet their statutory obligations. The IJB will need to ensure that arrangements are made to provide and agree this information by the specified date. This information should, as a minimum, include details of the transactions in the year, balances held at the year-end 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 with the local authority and health board by 30 April.
22. IJBs must publish the unaudited accounts on their websites and give public notice of the inspection period.

23. The 2014 regulations require the IJB (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual 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.
24. The IJB is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.
25. 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
Agreement of transactions and balances with relevant local authority and health board	By 30 April 2016
Consideration of unaudited financial statements by those charged with governance	FAC
	17 June 2016
	IJB 24 June 2016

Key stage	Date
Latest submission date of unaudited financial statements with complete working papers package	30 June 2016
Progress meetings with lead officers on emerging issues	Ongoing during audit process
Latest date for final clearance meeting with Chief Finance Officer	TBC
Agreement of audited unsigned financial statements, and issue of Annual Audit Report	FAC TBC IJB TBC
Independent auditor's report signed	By 30 September 2016

26. 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 relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Officer, Chief Officer, Finance and Resources, Head of Audit and Inspection, and Audit Scotland's Performance Audit and Best Value Group.
27. We will provide an independent auditor's report to Glasgow IJB 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.

28. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
29. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

30. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires a system of quality control to be established as part of financial audit procedures. 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. 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.
31. 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, Gillian Woolman, Assistant Director.

Independence and objectivity

32. 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 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 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.
33. 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 Glasgow IJB.

Audit issues and risks

Audit issues and risks

34. 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 Glasgow City IJB. 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

35. **Risk 1 – First set of annual accounts.** Glasgow City IJB was established in 2015/16 (although the delegation of functions and resources will not commence until 2016/17) and therefore is required to prepare annual accounts. As the 2015/16 annual accounts will be the first set of financial statements prepared for the IJB, there is a risk that that they do not include all relevant transaction types and balances and do not comply fully with the requirements of the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code).
36. **Risk 2 – Management override of controls.** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of the financial statements*) highlight the unique position of management to influence the financial statements by overriding

controls that otherwise operate effectively. The ability to override these controls exists in all entities and therefore represents a significant financial statements risk due to the potential for fraud.

Wider dimension issues and risks

37. We have not identified any wider dimension risks.

National performance audit studies

38. 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

experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Audit fee

39. In determining the audit fee we have taken account of the risk exposure of Glasgow City IJB, 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.
40. The proposed audit fee for the 2015/16 audit of Glasgow City IJB is £5,000. Our fee covers the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees.
41. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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.

Audit team

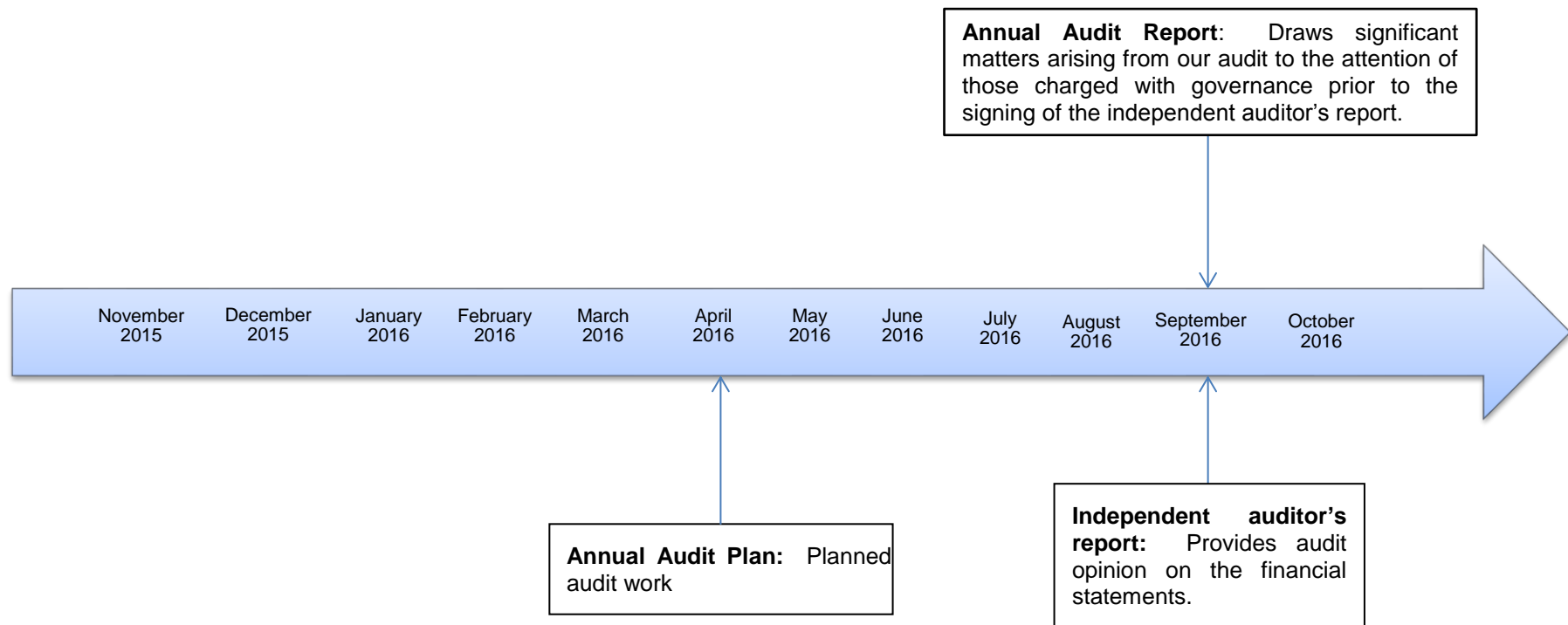
42. Gillian Woolman, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Elaine Barrowman who will be responsible for day to day management of the audit and who will be your primary contact. Details of the

Exhibit 2: Audit team

Name	Experience
Gillian Woolman FCA Assistant Director (and certifying auditor)	Gillian has worked in the public and private sector, internal and external audit, in the UK and overseas. She is the lead Assistant Director for Local Government and holds a mixed portfolio of audits. She is currently chair of the regional strategic board for the Institute of Chartered Accountants in England and Wales.
Elaine Barrowman CPFA Senior Audit Manager	Elaine has over 25 years experience of public sector audit, covering local government, central government and health.
Tom Reid CPFA Senior Auditor	Tom has over 10 years experience of public sector audit with Audit Scotland. During this time he has worked on a range of local government, health and central government audits.
Zahrah Mahmood Auditor	Zahrah has been with Audit Scotland for three years and recently passed the final level of the ICAS professional accountancy exams. She has worked on NHS, local government and central government audits. She recently completed a secondment to a finance role with an NHS Board.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for Glasgow City Integration Joint 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>First set of annual accounts</p> <p>Glasgow City IJB was established in 2015/16 and therefore is required to prepare annual accounts. As the 2015/16 annual accounts will be the first set of financial statements prepared for the IJB, there is a risk that they do not include all relevant transaction types and balances and do not comply fully with the requirements of the 2015/16 Code.</p>	<p>Officers responsible for preparing the annual accounts are familiar with the Code.</p> <p>Arrangements are in place to ensure the completeness of income and expenditure transactions for the new entity.</p> <p>Officers have agreed interim arrangements for the treatment of VAT for support services provided by the council and health board to the IJB.</p>	<p>Our audit of the 2015/16 accounts will review compliance with the Code and the audit approach is designed to consider risk of incompleteness of income and expenditure.</p>
2	<p>Management override of controls</p> <p>As is the case in all entities, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Internal audit reviews a range of financial systems and related controls and provides an opinion on the control environment.</p> <p>There are a range of measures in place to prevent and detect fraud, including standing orders, schemes of delegation and financial regulations.</p>	<p>We will evaluate any significant transactions that are outside the normal course of business.</p> <p>We will test journal entries and review accounting estimates for bias.</p>