

East Dunbartonshire Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

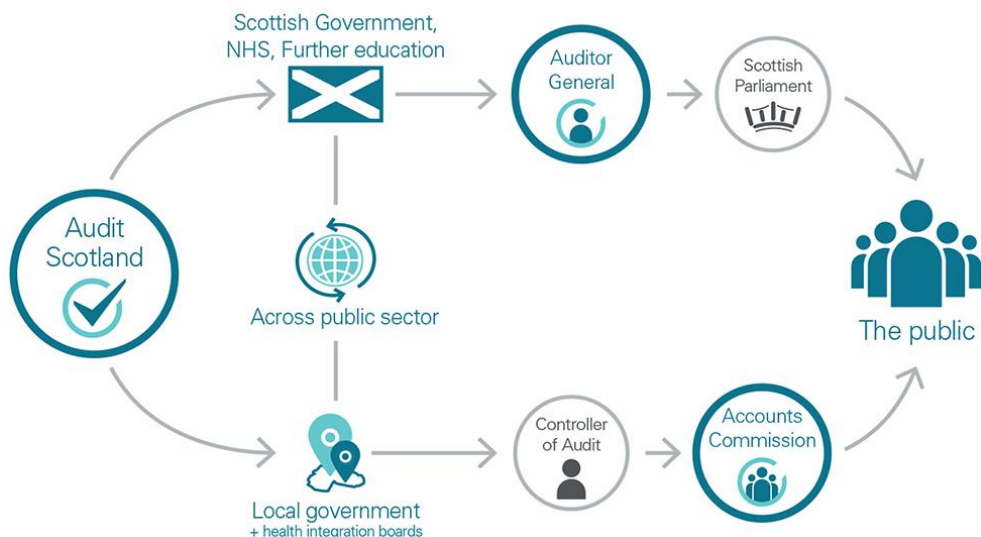
Prepared for East Dunbartonshire Council

February 2017

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.

Contents

| | |
|-------------------------------|----------|
| Risks and planned work | 4 |
| Audit risks | 4 |
| Reporting arrangements | 7 |
| Audit fee | 8 |
| Responsibilities | 8 |
| | |
| Audit scope and timing | 9 |
| Financial statements | 9 |
| Internal audit | 11 |
| Audit dimensions | 11 |
| Best Value | 13 |
| Independence and objectivity | 14 |
| Quality control | 14 |

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit of East Dunbartonshire Council (the council). Our audit is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. This plan sets out the audit work necessary to allow us to provide an independent auditor's report and meet the wider scope requirements of public sector audit (including the new approach to Best Value). The wider scope of public sector audit includes assessing arrangements for financial sustainability, governance and transparency and value for money. We make a public report of conclusions on these matters in our annual report to members and the Controller of Audit.

Audit risks

3. 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 the council. 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

| Audit Risk | Management assurance | Planned audit work |
|---|--|--|
| Financial statement issues and risks | | |
| <p>1 Risk of management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. 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.</p> | <ul style="list-style-type: none"> • <i>Owing to the nature of this risk, assurances from management are not applicable.</i> | <ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of significant management estimates and evaluation of the impact of any variability in key assumptions. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. |
| <p>2 Risk of fraud over income</p> <p>The extent and complexity of the council's income streams entails an inherent risk of fraud. ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk</p> | <ul style="list-style-type: none"> • Established budget setting process including, monitoring controls and variance analysis • Member scrutiny through regular cycle of committee reporting • Vast majority of income | <ul style="list-style-type: none"> • Walk through of controls within income systems. • Analytical procedures on income streams. • Detailed testing of revenue transactions. |

| Audit Risk | Management assurance | Planned audit work |
|---|--|--|
| in any audit. | received via electronic payments. | |
| <p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants. East Dunbartonshire Trust Funds also make grant payments.</p> | <ul style="list-style-type: none"> Established budget setting process including, monitoring controls and variance analysis Involvement in National Fraud Initiative. Compliance with procurement regulations and best practice. | <ul style="list-style-type: none"> Audit work on the National Fraud Initiative matches. Walk through of controls over social care payments. Assessing the overarching controls in grant schemes. Detailed testing of expenditure and housing benefit transactions. |
| <p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of pension assets and liabilities. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables.</p> | <ul style="list-style-type: none"> Valuation completed by qualified actuary. Applicability of actuarial assumptions reviewed by officers. | <ul style="list-style-type: none"> Review of the work of the actuary. Review appropriateness of actuarial assumptions. Confirm pension valuations in actuarial report are correctly reflected within the 2016/17 accounts. |
| <p>5 Payments to social care providers</p> <p>Existing controls relating to Carefirst system payments to private care providers need to be further enhanced to ensure payments are made only for care provided. There is a risk that payments may be made to care providers which do not reflect the level of care provided to individuals.</p> | <ul style="list-style-type: none"> A paper was tabled at the September 2016 Scrutiny Panel which considered the process, concerns raised by auditors, embedded controls and progress in implementing additional requirements. The establishment of the Social Work Payments Review team includes provision for ongoing Internal Audit representation to ensure that those key risks identified previously are considered and addressed as part of continuous improvement activities. | <ul style="list-style-type: none"> Place reliance and review the work of Internal Audit sampling Carefirst system payments at the year end. Review Internal Audit reports providing an update on the work of the Social Work Payments Review team. |
| <p>6 Audit & Risk Manager Vacancy</p> <p>There has been no Audit & Risk Manager in post since August 2016. Given that the Audit & Risk Manager provides the council with an annual opinion on the effectiveness of the council's governance framework, there is a risk that the S95 officer will be unable to obtain the required assurances on the effectiveness of the governance framework in place during 2016/17.</p> | <ul style="list-style-type: none"> The council is in the process of interviewing candidates for the post with a view to completing the recruitment process in preparation for the completion of year end requirements. The council is also evaluating those risks inherent in the recruitment process to ensure that suitable provisions are in place for year-end work. | <ul style="list-style-type: none"> Review the annual governance statement as part of the audit of the 2016/17 financial statements and the assurances obtained by the council to inform the completion of the annual governance statement. Monitor progress of internal audit work completed against the 2016/17 plan. |

| Audit Risk | Management assurance | Planned audit work |
|---|--|--|
| <p>7 Financial capacity</p> <p>As a result of staff turnover within the finance section, there is a risk that the Council fail to deliver unaudited financial statements and a comprehensive working paper package within agreed timescales.</p> | <ul style="list-style-type: none"> • Allocation of activities within Audit Scotland's working paper checklist to key staff. • Ongoing engagement between finance section and operational staff in respect of closedown and other supporting procedures. • Completion of financial statements work will be co-ordinated by the same team as in the prior year and provide consistency in the completion of working papers. • A review of the finance structure is nearing completion following consultation with staff and trades unions. The new structure includes provision for a specialised Financial Statements Team under the management of a Principal Accountant; this is scheduled to be in place to support year-end work. | <ul style="list-style-type: none"> • Meetings with finance staff throughout the preparation of the financial statements preparation and thereafter throughout the course of the audit. • Issue a working paper checklist to finance to outline requirements and agree timescales for the receipt of unaudited accounts and working papers. |

Wider dimension risks

| | | |
|---|---|---|
| <p>8 Financial sustainability</p> <p>The council is facing a significant challenge in bridging a funding gap of £11.3 million in 2017/18 and almost £33 million in the three years to 2019/20. The council may not be able to generate sufficient efficiencies and cost savings from its transformation programme to bridge the funding gap.</p> | <ul style="list-style-type: none"> • Detailed focus on transformational savings through the work of the Project Management Office. • Regular cycle of proposals and developments through the Strategic Planning and Performance Framework. • Cycles of committee reporting supported by refreshed scrutiny arrangements. | <ul style="list-style-type: none"> • Monitor the council's financial position by reviewing the revenue budget monitoring reports presented to Policy and Resources Committee and through meetings with officers. • Review the council's progress towards delivering efficiency savings. |
| <p>9 Financial management</p> <p>The previous auditor reported persistent under and overspends against budgets in 2015/16, and highlighted that improvements to budgets were required. There is a risk that the council will be unable to meet its budgeted expenditure if sound budgets have not been set for 2016/17.</p> | <ul style="list-style-type: none"> • Financial monitoring reports are provided to the Policy and Resources Committee at each meeting and scrutinised by members. | <ul style="list-style-type: none"> • Monitor revenue and capital expenditure through review of financial monitoring reports presented to the Policy and Resources Committee. |

| Audit Risk | Management assurance | Planned audit work |
|--|---|---|
| <p>10 Best Value follow-up</p> <p>The Controller of Audit will monitor progress against the findings and improvement areas identified in his December 2016 follow-up report through the annual audit process.</p> <p>There is a risk that the council is unable to demonstrate that action has been taken to address the findings and improvement areas identified.</p> | <ul style="list-style-type: none"> An updated Best Value improvement plan is due to be discussed at the Council meeting in March 2017. | <ul style="list-style-type: none"> Follow up the council's progress in relation to the Best Value findings and provide an update in our 2016/17 Annual Audit Report. |
| <p>11 Impact of May 2017 local government elections</p> <p>The 2017 local government elections will result in changes to council membership. There is a risk of a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required.</p> | <ul style="list-style-type: none"> Induction and training programme for new members. Additional training and support for members of individual committees and forums. The Audit Scotland publication "How Councils Work" will be used as guidance. | <ul style="list-style-type: none"> Review of the council's induction and training arrangements for councillors following the elections. Assess the effectiveness of decision making and scrutiny arrangements as part of ongoing Best Value audit work. |

4. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers five trusts with charitable status, with total assets of £1.1 million. We will perform the audit of the council's charitable trusts in parallel with the audit of East Dunbartonshire Council's financial statements. There are no specific risks for these audits which we require to bring to your attention.

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.

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 East Dunbartonshire Council and the Accounts Commission setting out our opinion on the financial statements and other matters upon which we are required to provide an opinion. We will provide members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit.

Exhibit 2

2016/17 Audit outputs

| Audit Output | Target date | Audit & Risk Management Committee Date |
|--|-------------------|--|
| Interim management report | 30 April 2017 | TBC |
| Annual audit report including ISA 260 requirements | 29 September 2017 | TBC |
| Signed independent auditor's report | 29 September 2017 | N/A |

Audit fee

8. The agreed audit fee for the 2016/17 audit of East Dunbartonshire Council is £253,045. In determining the audit fee we have taken account of the risk exposure of the council, 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 financial statements, with a complete working papers package by 30 June 2017.

9. We have also agreed an audit fee of £4,000 for the charitable trusts which are detailed in paragraph 4.

10. The agreed fees represent a reduction of £20,425 (7%) from those charged in 2015/16.

11. 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.

Responsibilities

Audit & Risk Management Committee and Chief Executive

12. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

13. The audit of the financial statements does not relieve management or the Audit & Risk Management Committee, as those charged with governance, of their responsibilities.

Appointed auditor

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

15. Auditors in the public sector give an independent opinion on the financial statements. 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

Financial statements

16. The statutory financial statements audit will be the foundation and source for the majority 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 East Dunbartonshire Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

17. We will give an opinion on the financial statements as to:

- give a true and fair view of the state of the affairs of the council and its group and of the income and expenditure for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for East Dunbartonshire Council are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

| Materiality level | 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 2016 based on the latest audited accounts for 2016. | £3.529 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 25% of planning materiality. | £0.882 million |
| Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality. | £0.035 million |

19. We also set separate materiality levels for the remaining five trusts with charitable status as detailed below.

Exhibit 4

Trust materiality values

| Trust | Planning materiality | Performance materiality | Reporting threshold |
|---|----------------------|-------------------------|---------------------|
| Robert Lillie Trust | £62 | £15 | £10 |
| Talbot Christie Bequest | £170 | £46 | £10 |
| East Dunbartonshire Council Trust Funds | £103 | £26 | £10 |
| Kirkintilloch War Memorial Fund | £57 | £28 | £10 |
| William Patrick Memorial Library | £1,006 | £503 | £10 |



20. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Audit & Risk Management Committee or equivalent.

Timetable

21. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 5](#) which takes account of submission requirements and planned Audit & Risk Management Committee dates:

Exhibit 5

Financial statements timetable

|  Key stage |  Date |
|---|--|
| Consideration of unaudited financial statements by those charged with governance | 27 June 2017 |
| Latest submission date of unaudited financial statements with complete working papers package | 30 June 2017 |
| Latest date for final clearance meeting with Chief Finance Officer | TBC |
| Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance | TBC |
| Independent auditor's report signed | 30 September 2017 |
| Latest date for signing of WGA return | 2 October 2017 |

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 and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the councils internal audit section.

Adequacy of Internal Audit

23. We seek to rely on the work of internal audit wherever possible and 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).

24. The latest update report on the internal audit plan taken to the October 2016 meeting of the Audit & Risk Management Committee noted that the internal audit section have delivered 69% of the 2016/17 planned audit days and 59% of the planned outputs within the first 9 months of the year. The report highlights that one of the reasons for the delay in the delivery of the 2016/17 internal audit plan is the lack of an Audit & Risk Manager, a position which has been vacant since August 2016. There is a risk that the 2016/17 internal audit plan will not be fully delivered unless sufficient staff resources are directed to the internal audit section.

Areas of reliance

25. Based on a review of the internal audit plan for 2016/17, we intend to place specific reliance on internal audit's review of social care payments.

26. In respect of our wider dimension audit responsibilities we also plan to consider the work of internal audit in relation to the National Fraud Initiative.

Audit dimensions

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

Exhibit 6

Audit dimensions



28. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Financial sustainability

29. 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

Financial management

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

Governance and transparency

31. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent

reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- 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

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

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

Best Value

33. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value (BV) in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

34. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council, that will provide a rounded picture of the council overall.
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

35. The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 7](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

Exhibit 7

2016/17 Best Value Assurance Reports

| | |
|---------------------------|------------------------|
| Clackmannanshire Council | Orkney Islands Council |
| East Renfrewshire Council | Renfrewshire Council |
| Inverclyde Council | West Lothian Council |

36. The Best Value audit work planned in the council this year will focus on follow up of progress made on areas identified for improvement in the December 2016 report. We will also be updating our understanding of the council's arrangements for demonstrating Best Value in financial and service planning. All Best Value work will be integrated with that described above. It will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report, in September 2017.

Independence and objectivity

37. Auditors appointed by Audit Scotland 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.

38. The engagement lead for East Dunbartonshire Council is Fiona Mitchell-Knight, Assistant Director. The engagement lead for the charitable trusts is Peter Lindsay, Senior Audit Manager. 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 the council or the trusts.

Quality control

39. 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.

40. 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 Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

41. 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.

East Dunbartonshire Council

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