

East Dunbartonshire Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for East Dunbartonshire Council
March 2018

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

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This audit plan provides an overview of the planned scope and timing of our audit of East Dunbartonshire Council for 2017/18. Our audit is carried out in accordance with International Standards on Auditing (ISAs) and the [Code of Audit Practice](#) issued by Audit Scotland and endorsed by the Accounts Commission.

2. The plan sets out the audit work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit. The wider scope of public 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 Audit 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 East Dunbartonshire Council (the Council). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are set out at [Exhibit 1](#).

Exhibit 1

2017/18 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 a significant risk in any audit. This includes consideration of the risk of management override of controls.</p>	<p>In view of the nature of this risk, assurances from management are not appropriate.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. 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>ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a significant risk in any audit.</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	Source of assurance	Planned audit work
	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, grant payments and procurement expenditure, which present a risk of fraud over expenditure.</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. 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 2017/18 accounts.
Wider dimension risks		
<p>5 Effective Leadership and Scrutiny</p> <p>At the 2018/19 revenue and capital budget setting meeting in March 2018, the Council appointed a joint administration and two co-leaders of the Council after the resignation of the previous administration in December 2017. It is too early to assess whether this has adversely impacted the effectiveness of scrutiny within the Council and the Council's ability to provide strategic direction. This was of specific concern with regard to the setting of the revenue and capital budgets for 2018/19.</p>	<ul style="list-style-type: none"> All committee meetings were held as special Council meetings with all elected members being invited. This was to ensure in the absence of the administration all elected members were equally advised of Council business. A cross-party working group was established in January 2018 to discuss and agree budgetary decisions in February and March 2018. 	<ul style="list-style-type: none"> Ongoing communication with Council officers and strategic leads. Review of 2018/19 budget documentation and updated transformation programme. Regular attendance at Council meetings.
<p>6 Financial Sustainability and Planning</p> <p>The Council continues to face significant financial pressures from funding constraints and increasing costs. There is a risk that the Council is unable to achieve the required savings to address the funding gap which</p>	<ul style="list-style-type: none"> Detailed focus on transformational savings through the strategic planning and performance framework reports including ongoing Transformational Programme Reporting to Policy and Resources, the analysis of savings achieved as reported 	<ul style="list-style-type: none"> Review financial monitoring reports and the financial position. Review spending outturns against budget. Review planned use and reliance on unallocated reserves. Review the Long Term

Audit Risk	Source of assurance	Planned audit work
<p>places further pressure on reserves.</p> <p>In addition, the Council has yet to publish a long term financial plan which would identify potential future risks and ensure spending decisions are affordable. There is a risk that the Council is not planning adequately over the medium to long term to manage or respond to significant financial risks.</p>	<p>through ongoing monitoring reports, the Transformation Board and the application of established PMO governance processes.</p> <ul style="list-style-type: none"> • Regular cycle of proposals and developments through the Strategic Planning and Performance Framework. • Cycles of committee reporting supported by refreshed scrutiny arrangements • The Council has recently developed a Long Term Financial Risk Management Strategy to act as the long term plan. This has been included in the Strategic Planning and Performance Framework and supported the budget setting process in March 2018. 	<p>Financial Risk Management Strategy.</p> <ul style="list-style-type: none"> • Review delivery of the transformation programme. • Review the progress of the zero based budgeting project.
<p>7 Best Value</p> <p>The Controller of Audit will monitor progress against the findings and improvement areas identified in his November 2017 Best Value follow-up report through the annual audit process. These included actions on:</p> <ul style="list-style-type: none"> • Delivery of the transformation plan and competent programme management. • Effectiveness of scrutiny by elected members. • Workforce planning. • Clarity of reporting to elected members. 	<ul style="list-style-type: none"> • The monitoring of best value forms a consistent topic for SMT consideration. SMT receive regular updates (one in November and a further update in February) and track ongoing developments to ensure improvements are sustained. 	<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 2017/18 Annual Audit Report. • Ongoing discussions with strategic leads during the year • Attendance and review of relevant committee's minutes.
<p>8 Laws and Regulations</p> <p>The Council is required to identify changes in laws and regulations to ensure compliance. There is a risk that changes in legislation are not identified and that the impact that these changes will have on the Council are not assessed.</p>	<ul style="list-style-type: none"> • Strategic leads liaise, identify and react to changes in law relevant to strategic areas. This work is supported through interactions with and membership of bodies such as COSLA, SOLAR, SOLACE, CIPFA Directors of Finance and the provisions of the Monitoring Officer role and 	<ul style="list-style-type: none"> • Assess arrangements in place to ensure that these are effective and monitored on a regular basis.

Audit Risk	Source of assurance	Planned audit work
	coordination through internal legal teams where appropriate.	
<p>9 Register of Interest</p> <p>There is no register of interest in place for Council officers. There is a risk that officers' interests and those of their close family are not adequately disclosed to enable potential conflicts to be identified and managed.</p>	<ul style="list-style-type: none"> Officers acknowledge that this would be a useful exercise to support transparency and will progress this action by during 2018. 	<ul style="list-style-type: none"> Assess the adequacy of the process for identifying related parties for year end financial statements. Ongoing review of Council and committee minutes for declarations of interest

Audit of charities administered by East Dunbartonshire Council

4. Members of East Dunbartonshire Council are sole trustees for three registered Scottish charities, with combined assets of £1.14 million.

5. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The 2006 regulations require charities to prepare annual accounts, and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Consequently, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

6. Based on our discussions with staff and initial planning work undertaken there are no specific risks for these audits which we require to bring to your attention.

Reporting Arrangements

7. This Annual Audit Plan, the outputs set out in [Exhibit 2](#), and any other outputs on matters of public interest will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

8. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the relevant officer(s) to confirm factual accuracy.

9. We will provide an independent auditor's report to the members of 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 Audit Report, containing observations and recommendations on significant matters which have arisen during the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Management Date
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Audit Output	Target date	Audit and Risk Management Date
Management Report	31 May 2018	TBC
Annual Audit Report	28 September 2018	TBC
Independent Auditor's Report	28 September 2018	TBC

Audit fee

10. The agreed audit fee for the 2017/18 audit of East Dunbartonshire Council is £246,580. 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 annual accounts, with a complete working papers package by 29 June 2018.

11. We have also agreed an audit fee of £2,000 for the charitable trusts which are detailed in paragraph 4.

12. The agreed fees represent a reduction of £8,465 (3%) from those charged in 2016/17.

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit and Risk Management Committee and Chief Executive

14. 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.

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

Appointed auditor

16. 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.

17. Auditors in the public sector give an independent opinion on the annual accounts. We aim to support improvement and accountability by reviewing and reporting on arrangements to management performance and use of resources.

Audit scope and timing

Financial statements

18. The statutory financial statements audit will be the foundation and source for much of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing local government and the wider 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 East Dunbartonshire 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.

19. We will give an opinion on:

- Whether the financial statements give a true and fair view of the state of affairs of the Council and its group and the income and expenditure for the year
- Whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- whether the annual accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and other relevant legislation.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

20. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any potential audit adjustments on the financial statements. Our calculated materiality levels are set out at [Exhibit 3](#).

Exhibit 3

Materiality levels

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 2017 (based on the most recent audited accounts).	£3.6 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 25% of planning materiality.	£0.9 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of a predetermined reporting threshold. This has been calculated at 1% of planning materiality.	£0.036 million

21. We set separate materiality levels for the audits of the charities accounts, as detailed below.

Exhibit 4

Charitable trust materiality levels

Trust	Planning materiality*	Performance materiality	Reporting threshold**
East Dunbartonshire Council Charitable Trusts	£1,422	£711	£15

* Based on the latest audited accounts and set at 1% of expenditure for the year ended 31 March 2017.

** In view of the amounts involved, we have set the reporting threshold at £15.

22. Items can be material by nature, rather than value; for example, a failure to comply with legislation. We review other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. We consider whether the supporting information is consistent with the financial statements and our wider knowledge of the Council and its environment and provide comment and recommendations as appropriate.

Timetable

23. An agreed timetable is included at [Exhibit 5](#) which takes account of submission requirements and planned Audit and Risk Management Committee meeting dates:

Exhibit 5

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	21 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with officers	10 September 2018
Agreement of unsigned financial statements; Issue of annual audit report	12 September 2018
Independent auditor's report signed	28 September 2018
Latest date for signing of whole of government accounts return	28 September 2018

Internal audit

24. 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 at audited bodies. The Council's internal audit function is led by the Audit and Risk Manager.

Adequacy of Internal Audit

25. Our assessment of the internal audit function 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). An external assessment of PSIAS compliance has been completed and a draft report has been issued to the Audit and Risk Manager. We will review the final report when it becomes available. The Audit and Risk Manager also confirmed that they are reviewing their fit and proper arrangements to identify possible improvements.

26. The latest update report on the internal audit plan taken to the February 2018 meeting of the Audit & Risk Management Committee noted that the internal audit section have delivered 70% of the 2017/18 planned audit days and 66% of the planned outputs within the first 9 months of the year. We note that there are significant overspends for performance audits and for training, management and administration days.

Areas of Internal Audit reliance

27. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Homecare Follow Up
- Payments Controls

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements, [Exhibit 6](#). Our conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 6

Audit dimensions



Source: Code of Audit Practice

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 of the financial statements. We also comment on the Council's financial sustainability in the medium and longer term. We will carry out work and conclude on the following in 2017/18:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term; including the potential impact of the end of the public sector pay cap, new financial powers and EU withdrawal.
- 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 including:

- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- whether financial capacity and skills are adequate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

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 assess:

- whether governance arrangements are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency of decision-making (including for services delivered by (or in partnership with) other bodies such as the integration joint board)
- the quality and timeliness of financial/performance reporting
- the Council's cyber security arrangements.

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 delivering value for money in its use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

33. During 2016/17 we carried out a housing benefit (HB) performance audit at the Council. Our findings from this work were contained in our risk assessment report which was issued to the Council in June 2017. We will follow up the Council's action plan developed to address the issues identified in our report as part of the 2017/18 audit.

Impact reports

34. As part of our 2017/18 audit activity we will be carrying out some limited work to assess the local impact of recent national audit reports including:

- Changing models of health and social care (published March 2016)
- Roads maintenance follow-up (published August 2016)
- Social work in Scotland (published September 2016)

35. In Autumn 2018 Audit Scotland intends to publish, on behalf of the Auditor General and the Accounts Commission, a second national performance audit report on Health and Social Care Integration. We will contribute to the intelligence for this report as required from the Council's perspective.

Best Value

36. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016.

37. 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

- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission setting out findings from across all 32 Scottish councils
- 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.

38. The six councils on which a BVAR will be published during the second year of the new approach are listed at [Exhibit 7](#). Reports will be considered by the Accounts Commission between April 2018 and November 2018.

Exhibit 7

2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

39. The work planned in East Dunbartonshire Council this year will focus on the Council's arrangements for demonstrating Best Value in delivering performance outcomes and improvement and sustainability. We will also follow up progress made by the Council on the November 2017 Best Value Follow Up report and the Accounts Commission's findings. This work will be integrated into the audit approach and will be reported in the Annual Audit Report.

Independence and objectivity

40. 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 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

41. 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 East Dunbartonshire Council or the charities.

Quality control

42. 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.

43. 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 and internal and external quality reviews. External quality reviews are conducted by the Institute of Chartered Accountants of Scotland.

44. 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.

Adding Value

45. Through our audit work we aim to add value to the Council. We will do this by providing a summary of our audit activity in an Annual Audit Report. We will provide clear judgements and conclusions on how well the Council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where appropriate we will recommend actions that support continuous improvement and highlight any areas of good practice identified from our audit work.

East Dunbartonshire Council

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