

Inverclyde Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Inverclyde Council

February 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

Our vision is to be a world – class audit organisation that improves the use of public money.

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and to meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

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 Inverclyde 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

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 in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>Inverclyde Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>The annual internal audit plan for 2017/18 includes specific corporate fraud reviews of:</p> <ul style="list-style-type: none"> Code of Conduct – conflicts of interest / other remunerative employment Commercial leases <p>Compliance with relevant financial policies and procedures is reviewed by management as part of the annual governance review.</p>	<p>Establishing and testing the operation of key controls over income streams, including non domestic rates and council tax.</p> <p>Analytical procedures on income streams.</p> <p>Detailed substantive testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice extends the assumptions within ISA 240 to the risk of fraud associated with areas of expenditure. Inverclyde Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants and therefore there is an inherent risk of fraud.</p>	<p>The annual internal audit plan for 2017/18 includes specific corporate fraud reviews of:</p> <ul style="list-style-type: none"> • Council Tax Reduction Scheme – exemptions • Creditors – duplicate payments • Code of Conduct – conflicts of interest / other remunerative employment • Employee expenses • Commercial leases <p>The plan also allows for the oversight of arrangements for the National Fraud Initiative (NFI) exercise.</p> <p>Compliance with relevant financial policies and procedures is reviewed by management as part of the annual governance review.</p>	<p>Walkthrough of controls over social care payments.</p> <p>Detailed substantive testing of expenditure including social care payments, grants and housing benefit transactions.</p> <p>Review Internal Audit’s work on “grants to voluntary organisations”</p>

Wider dimension risks

<p>4 Best Value Assurance Report (BVAR) recommendations</p> <p>The BVAR made a number of recommendations related to the wider dimension risks. These covered areas including:</p> <ul style="list-style-type: none"> • developing a single set of outcomes to simplify the strategic and planning framework; • measuring the impact on outcomes; • reflecting key corporate initiatives in corporate planning documents; • developing more detailed workforce plans and longer term forecasts of required workforce numbers and skills; • developing the process for monitoring service reviews; • embedding the directorate change management groups to prioritise, manage and monitor service improvement activity; • progressing community empowerment; and • undertaking a detailed review of earmarked reserves. 	<p>The council developed an improvement plan to address the recommendations made by Audit Scotland. The actions in the improvement plan have also been absorbed into the Corporate Directorate Improvement Plans (CDIPs) for the council.</p>	<p>Monitoring of progress against agreed best value improvement plan actions.</p> <p>Focused reviews in line with strategic best value audit plan (Exhibit 7)</p>
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Reporting arrangements

4. 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.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

6. We will provide an independent auditor's report to Inverclyde Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of Inverclyde Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Interim Management Report	30 April 2018	June / August 2018 (tbc)
Annual Audit Report	September 2018	September 2018 (tbc)
Independent Auditor's Report	28 September 2018	September 2018 (tbc)

Audit fee

7. The agreed audit fee for the 2017/18 audit of Inverclyde Council is £243,450. In determining the audit fee we have taken account of the risk exposure of Inverclyde 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 on 29 June 2018.

8. 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 Committee and Accountable Officer

9. 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.

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

Appointed auditor

11. Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

13. 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 Inverclyde 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 Inverclyde 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.

14. We will give an opinion on the financial statements as to whether they:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the Council and its group as at 31 March 2018, and the income and expenditure of the Council and its group for the year then ended.
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and as interpreted and adapted by the 2017/18 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for Inverclyde 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 2018 based on the latest audited accounts.	£3.2 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£1.6 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been set at the maximum value permitted.	£100,000



17. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Audit Committee.

Timetable

18. 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 4](#) which takes account of submission requirements and planned Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	28 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with Chief Financial Officer	6 September 2018
Issue of letter of representation and proposed independent auditor's report	September 2018
Agreement of audited unsigned annual accounts	September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	September 2018
Independent auditor's report signed	September 2018
Latest date for signing of WGA return	28 September 2018 (tbc)

Internal audit

19. 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 a team of staff managed by a Chief Internal Auditor.

Adequacy of Internal Audit

20. 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).

Areas of Internal Audit reliance

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

- Revenues – Council Tax (financial systems review)

22. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Grants to Voluntary Organisations (risk based audit review)
- Council Tax Reduction Scheme – exemptions (fraud risk review)
- Creditors – duplicate payments (fraud risk review)
- Code of Conduct – conflicts of interest / other remunerative employment (fraud risk review)
- Commercial leases (fraud risk review)
- Education – Pupil Equity Fund (regularity audit)
- Performance Management arrangements – Inverclyde Leisure Trust (arms length external organisations)

Audit dimensions

23. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

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

Financial sustainability

25. 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
- whether Inverclyde Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

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

Governance and transparency

27. 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 Inverclyde 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 arms length external organisations (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

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

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

Best Value

29. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. Auditors will use the framework for their audit work from October 2016.

30. 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.

31. The six councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

Exhibit 6

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

32. Inverclyde Council was the first to receive a BVAR under the revised arrangements to auditing best value in local government. The report was published in June 2017 and identified good progress across the council since previous best value reports. The work planned in Inverclyde Council this year focuses on the Council's response to issues identified in the BVAR published in June 2017. The work is integrated with our wider dimension responsibilities, and is set out in the strategic plan at [Exhibit 7](#).

Strategic plan for the five year appointment

33. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 7

Strategic plan

Dimension	2017/18	2018/19	2019/20 to 2020/21
Financial sustainability	Development of longer term financial planning		Shared services development
Financial management	Financial governance and resource management		Asset management
Governance and transparency	Monitoring of BVAR improvement actions	Business planning (change management)	Community empowerment
Value for money	Workforce and succession planning	Review of City Deal detailed business cases	Measuring impact on outcomes

Independence and objectivity

34. 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.

35. The engagement lead for Inverclyde Council is Brian Howarth, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Inverclyde Council.

Quality control

36. 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.

37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the 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.

38. 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

39. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Audited Body has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Inverclyde Council

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