

East Dunbartonshire Council

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for East Dunbartonshire Council
March 2019

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 sets out the 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 including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the East Dunbartonshire Council audit through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. 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 detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>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 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>	<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>The Council receives a significant amount of income from several sources including income from fee and charges funding. The extent and complexity of income means that, in</p>	<ul style="list-style-type: none"> • Established budget setting process including, monitoring controls and variance analysis • Member scrutiny through regular 	<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
<p>accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>cycle of committee reporting</p> <ul style="list-style-type: none"> Vast majority of income received via electronic payments. 	<p>focusing on the areas of greatest risk.</p>
<p>3 Risk of fraud over expenditure</p> <p>The Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants where there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> Established budget setting process including, monitoring controls and variance analysis Work of the Corporate Fraud Team within Internal Audit 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 Reliance on Internal Audit work on Direct Payments Detailed substantive testing of expenditure including housing benefit transactions.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pension assets and liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</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 the actuarial assumptions Confirm pension valuations in the actuarial report are correctly reflected in the 2018/19 accounts Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.
<p>5 Trade receivables</p> <p>Audit testing in the prior year identified a number of errors within the trade receivables balance which included both items incorrectly posted to the wrong financial year and items that were incorrectly accounted for.</p> <p>There is a risk that the 2018/19 unaudited accounts do not reflect actual income and are materially misstated.</p>	<ul style="list-style-type: none"> Finance officers will work with service teams to better anticipate, identify and record trades receivables as at the year-end Additional work will be undertaken as part of the preparation of the 2018/19 financial statements to mitigate this risk. 	<ul style="list-style-type: none"> Focussed testing of debtor balances at year-end Cut off testing performed on income streams.
<p>Wider dimension issues and risks</p>		
<p>6 EU withdrawal</p>	<ul style="list-style-type: none"> The Council is working to mitigate and manage those 	<ul style="list-style-type: none"> Assess how the Council has prepared for EU withdrawal, including the

 Audit Risk	Source of assurance	Planned audit work
<p>There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses.</p> <p>There is a risk that the Council is not prepared for the impact of EU withdrawal on the delivery of services.</p>	<p>risks and implications resulting from the EU withdrawal as part of its business continuity and civil contingency arrangements</p> <ul style="list-style-type: none"> In February 2019 Internal Audit prepared a consultancy and advice note at the request of the Chief Finance Officer on the financial risks to the Council of EU withdrawal. 	<p>specific work on workforce impact and dependency on key suppliers</p> <ul style="list-style-type: none"> Consider how the Council responds to any emerging issues after March 2019.
<p>7 Follow up of Internal Audit reports and actions</p> <p>A follow up Internal Audit interim report was presented to the Audit and Risk Management Committee in December 2018 which confirmed that a significant number of Internal Audit recommended improvement actions, including some classified as high risk, had not been progressed by Council officer.</p> <p>There is a risk that services are not implementing improvement actions in line with the agreed timescales.</p>	<ul style="list-style-type: none"> The Council's Chief Internal Auditor has issued consolidated actions reports to all Executive Officers with a further update being to the Audit & Risk Management Committee on the 13th June 2019. 	<ul style="list-style-type: none"> Attendance at pre-agenda meetings for the Audit and Risk Management Committee Monitoring of progress on internal audit actions being progressed in year.

Source: Audit Scotland

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 Accounts Commission setting out our opinions 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 audit.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Audit and Risk Management Committee Date
Annual Audit Plan	29 March 2019	18 April 2019
Management Report	31 May 2019	13 June 2019
Annual Audit Report	30 September 2019	TBC
Independent Auditor's Report	30 September 2019	TBC

Source: Audit Scotland

The audit of trusts registered as Scottish charities

8. Members of East Dunbartonshire Council are sole trustees for three trusts, registered as Scottish charities, with total assets of some £1.13 million. 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.

9. The 2006 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. Therefore, a full and separate audit and independent auditor's report is required for each register charity where members of the Council are sole trustees, irrespective of the size of the charity.

10. There are no specific risks for these audits which we require to bring to your attention.

Audit fee

11. The agreed audit fee for the 2018/19 audit of East Dunbartonshire Council is £251,190 (Prior year fee £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 accounts with a complete working papers package by 28 June 2019.

12. We have also agreed an audit fee of £2,000 (Prior year fee £2,000) for the charitable trusts which are detailed in paragraph 8.

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited 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 out with 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 auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

17. Auditors in the public sector give an independent opinion on the financial statements and other information within 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

Annual accounts

18. The annual accounts, which include the financial statements, will be the foundation and source for most 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.

19. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the of the state of affairs of the council and its group as at 31 March 2019 and of 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, as interpreted and adapted by the 2018/19 Code; and
- 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.

Other information in the annual accounts

20. We also review and report on other information published within the financial statements including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

21. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

22. 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 opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

23. We calculate materiality at different levels as described below. The calculated materiality values for the Council are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	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.	£3.463 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. This is based on the high extent of judgement in the balances relating to non current assets and pensions, the level of monetary errors identified in prior years, and the high volume of transactions processed.	£0.9 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. This has been calculated at 1% of planning materiality.	£35,000

Source: Audit Scotland

24. We set separate materiality levels for the audit 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	£308	£154	£3

Timetable

25. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 5](#).

Exhibit 5 Annual accounts timetable (Council & Charitable Trusts)

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	27 June 2019
Latest submission date of unaudited financial statements with complete working papers package	28 June 2019

 Key stage	 Date
Latest date for final clearance meeting with Chief Finance Officer	9 September 2019
Agreement of audited unsigned financial statements	19 September 2019
Issue of Letter of Representation and proposed independent auditor's report	19 September 2019
Issue of Annual Audit Report to those charged with governance	19 September 2019
Independent auditor's report signed	30 September 2019

Internal audit

26. Internal audit is provided by the in house internal audit section at East Dunbartonshire Council. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

Adequacy of Internal Audit

27. 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). The Audit and Risk Manager also confirmed that they have reviewed their fit and proper arrangements.

28. The latest update report on the internal audit plan taken to the February 2019 meeting of the Audit and Risk Management Committee noted that the internal audit section have delivered 71% of the 2018/19 planned audit days and 77% of the planned outputs within the first 9 months of the year.

Using the work of internal audit

29. 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

30. From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Payroll
- Direct Payments

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

- Budget Setting and Monitoring

Audit dimensions

32. 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



Source: Code of Audit Practice

33. 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

34. 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 the Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

35. 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

36. 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.

Best Value/Value for money

37. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

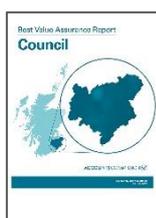
38. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete 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.

39. The seven councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 7](#) overleaf. Reports will be considered by the Accounts Commission in the period between March and November 2019.

Exhibit 7

2018/19 Best Value Assurance Reports



North Lanarkshire Council

Highland Council

Stirling Council

Scottish Borders Council

South Lanarkshire Council

Perth and Kinross Council

Midlothian Council

Source: Audit Scotland

40. The work planned in the Council this year will focus on the Council's arrangements for demonstrating Best Value in Vision and Leadership, Partnership and Collaborative Working and Community Responsiveness. The work will be integrated with that described above in these areas. 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.

Independence and objectivity

41. 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 robust arrangements in place 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.

42. The engagement lead (i.e. appointed auditor) for East Dunbartonshire Council is Fiona Mitchell-Knight, Audit 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 charitable trusts.

Quality control

43. 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.

44. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

45. 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.

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