

Inverclyde Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Inverclyde Council
January 2020

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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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 Inverclyde Council 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 Inverclyde 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 significant risks for Inverclyde Council. We have categorised these risks into financial statements risks and wider dimension risks, as detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls to change the position in the financial statements.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Identification and evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud in income recognition.</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. Inverclyde Council receives a significant</p>	<p>The 2019/20 Internal Audit Annual Plan includes reviews where the risk of fraud is considered including:</p> <ul style="list-style-type: none"> Tipping Permits 	<ul style="list-style-type: none"> Detailed testing of revenue transactions focusing on the areas of greatest risk. Testing the operation of key controls over council tax and NDR income.

	Audit Risk	Source of assurance	Planned audit work
	<p>amount of income from several sources including income from fee and charges funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> • Residents Parking Scheme • Stock/Inventory Control – Quarterly Checks <p>In addition, the plan also includes oversight of the National Fraud Initiative and progress reports are provided on a regular basis.</p> <p>Furthermore, compliance with relevant financial policies and regulations is reviewed as part of the annual governance process.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams.
3	<p>Risk of fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. Inverclyde Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants where there is an inherent risk of fraud.</p>	<p>The 2019/20 Internal Audit Annual Plan includes reviews where the risk of fraud is considered including:</p> <ul style="list-style-type: none"> • Tipping Permits • Residents Parking Scheme • Employee Expenses – Quarterly Checks • Corporate Purchase Cards – Quarterly Checks <p>In addition, the plan also includes oversight of the National Fraud Initiative and progress reports are provided on a regular basis.</p> <p>Furthermore, compliance with relevant financial policies and regulations is reviewed as part of the annual governance process.</p>	<ul style="list-style-type: none"> • Detailed testing of expenditure focusing on areas of greatest risk, such as grant awards, social care payments and housing benefit transactions. • Testing the operation of controls over social care payments.
4	<p>Risk of error in areas of estimation and judgement</p> <p>There is a significant degree of subjectivity in the measurement and valuation of non-current assets, pensions, accruals and provisions. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.</p>	<p>The Council has clearly defined procedures in place, including, where appropriate, the use of experts to make significant estimations and judgements.</p> <p>All estimations and judgements are reviewed by qualified finance staff.</p>	<ul style="list-style-type: none"> • Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. • Review appropriateness of actuarial assumptions and results including comparison with other councils. • Establish officer's arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.

 Audit Risk	Source of assurance	Planned audit work
		<ul style="list-style-type: none"> Review actual experience of significant estimates made in the prior year. Review the bad debt policy in relation to council tax Review officers' assessment of other significant accruals and provisions at the year end Sample check the calculations and assessment of depreciation on non-current assets

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs 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 officers to confirm factual accuracy.

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

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 January 2020	25 February 2020
Management Report	31 March 2020	28 April 2020
Independent Auditor's Report	30 September 2020*	24 September 2020
Annual Audit Report	30 September 2020*	24 September 2020

* These dates represent the certification deadline for the 2019/20 local government accounts. However, we will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts

Audit fee

8. The proposed audit fee for the 2019/20 audit of Inverclyde Council is £253,060 (£248,140 in 2018/19). 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 on 25 June 2020.

9. 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 out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

10. 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.

11. The audit of the annual accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. 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.

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

14. 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 Inverclyde Council and the associated risks
- assessing the key systems of internal control, and establishing the impact of any identified weaknesses
- 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.

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

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 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 2019/20 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

16. We also review and report on statutory other information published within the annual accounts 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.

17. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in other information.

Materiality

18. 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.

19. 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	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for the year ended 31 March 2019.	£3.5 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. This is based on the high extent of judgement in the balances relating to non-current assets, pensions, accruals and provisions, the level of monetary errors identified in prior years, and the high volume of transactions processed.	£1.75 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 3% of planning materiality.	£100,000

Source: Audit Scotland

Timetable

20. 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 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	25 June 2020
Submission of unaudited annual accounts with working papers package to audit	25 June 2020
Latest date for receipt of assurances from group's component auditors	24 August 2020
Latest date for final clearance meeting with Chief Financial Officer	4 September 2020
Agreement of audited unsigned annual accounts	11 September 2020
Issue of annual audit report, letter of representation and proposed independent auditor's report	
Consideration of audited annual accounts and audit reporting by those charged with governance	24 September 2020 (tbc)
Latest date for signing independent auditor's report	30 September 2020

Internal audit

21. Internal audit is provided by the in-house internal audit section at Inverclyde Council. 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 generally operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

22. The Chief Internal Auditor has now taken on a shared management role, covering both West Dunbartonshire and Inverclyde Councils. Steps are being taken to expand the peer review arrangements in place at West Dunbartonshire Council to include Inverclyde Council, which is a requirement of PSIAS that had not previously been met at Inverclyde Council.

Using the work of internal audit

23. 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.

Audit dimensions

24. 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

25. 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

26. 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 council's financial sustainability in the medium term (two to five years) and longer term (longer than five years). 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

27. 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 its 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.

28. The Scottish Government will set out their draft budget plans on 6 February 2020. This is in advance of the UK government's budget which is planned for 11 March 2020. Councils have a duty to set council tax by 11 March although some councils, including Inverclyde, have in recent years set the council tax before 11 March and then subsequently approved a budget at a later date. The Council intend to adopt this approach again in setting the 2020/21 budget.

Governance and transparency

29. 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 of decision-making
- the quality and timeliness of financial and performance reporting.

Value for money

30. 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
- demonstrate that there is a clear link between money spent, output and outcomes delivered
- show that outcomes are improving.

Best Value

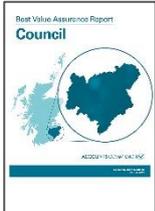
31. The Accounts Commission for Scotland agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

32. 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 Accounts Commission for Scotland 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 for Scotland at least once in a five-year period.

33. The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission for Scotland in the period between March and November 2020.

Exhibit 6 2019/20 Best Value Assurance Reports

	Aberdeenshire Council	Dundee Council
	Argyll and Bute Council	Falkirk Council
	City of Edinburgh Council	Moray Council
	North Ayrshire Council	

Source: Audit Scotland

Strategic plan for the five-year appointment

34. As part of our responsibility to report on the audit dimensions over the current audit appointment, the areas of proposed audit work we have identified are outlined in [Exhibit 7](#). During 2019/20 we will monitor the council's progress in implementing the actions from the BVAR, specifically looking at the progress on City Deal arrangements and the measurement of impact on strategic outcomes.

Exhibit 7 Strategic plan

Dimension	2016/17 & 2017/18	2018/19	2019/20	2020/21
Financial sustainability	Development of longer-term financial planning	Reserves		
Financial management	Financial governance and resource management	Succession planning		

Governance and transparency	Vision and Leadership Governance, decision making and scrutiny Community engagement / empowerment	Openness and transparency Equalities Corporate initiatives and outcomes	Measuring impact on outcomes	Community engagement / empowerment
Value for money	Performance / outcomes Transformational change Partnership working		Review of City Deals	

Source: Audit Scotland

Independence and objectivity

35. Auditors appointed by the Accounts Commission for Scotland 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.

36. The engagement lead (i.e. appointed auditor) for Inverclyde Council is Brian Howarth, Audit 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

37. 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.

38. 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 Accounts Commission 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.

39. 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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