

East Dunbartonshire Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for East Dunbartonshire Council
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of East Dunbartonshire Council (the council). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Management Commentary, the Governance Statement and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review East Dunbartonshire Council's arrangements for preparing and publishing statutory performance information
- review East Dunbartonshire Council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to East Dunbartonshire 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 will help East Dunbartonshire Council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Management Committee and actively participate in discussions.

Respective responsibilities of the auditor and East Dunbartonshire Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and East Dunbartonshire Council. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 (LG bodies) and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the East Dunbartonshire Council to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

East Dunbartonshire Council responsibilities

8. East Dunbartonshire Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, East Dunbartonshire Council has 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for East Dunbartonshire Council are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for East Dunbartonshire Council

Materiality	Amount	Group
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 for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£4.429 million	£4.448 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 assessed performance materiality at 50% of planning materiality.	£2.215 million	£2.224 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.	£0.1 million	£0.1 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of East Dunbartonshire Council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings</p> <p>The council held land and buildings (including council dwellings), with a net book value of more than £573 million as at 31 March 2021. An external valuer carries out valuations of land and buildings on a five year rolling basis.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<p>Our 2020/21 Annual Audit Report highlighted that, for those categories of land and buildings not revalued each year as part of the rolling five-year revaluation programme, the Chief Finance Officer will carry out an annual review to provide assurance on the value of these assets. This will document how the council has concluded that, in the absence of a recent revaluation, the land and buildings asset values in the annual accounts are fairly stated.</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Evaluate the approach the council has adopted to assess the risk that assets not subject to valuation are not materially misstated and consider the robustness of that approach. • Test the reconciliation between the financial ledger and the property asset register. • Assess the adequacy of the council's disclosures regarding the assumptions in relation to the valuation of land and buildings.

Source: Audit Scotland

Other areas of audit focus

15. As part of our assessment of audit risks, we have identified the valuation of pension liabilities as an area for focus, where we consider there is also a risk of material misstatement to the annual accounts. This is due to the material value and significant assumptions used in the calculation of the liability.

16. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses. If our assessment of risk changes and we consider this risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

17. We will report on the findings of our audit work on the council's pension liability in our Annual Audit Report.

Consideration of the risks of fraud in the recognition of income and expenditure

18. As set out in *International Standard on Auditing (UK) 240: The auditor's responsibility relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for East Dunbartonshire Council as the main source of income is from Scottish Government funding and other public sector transfers and payments. In addition, the council's other income streams comprise of high volume, low value items that are unlikely to result in a material misstatement in the accounts.

19. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. However, we have also rebutted this risk for East Dunbartonshire Council as our assessment of the constituent expenditure streams, including consideration of historical levels of frauds, is that the risk of a material misstatement due to fraud is low.

20. We have not, therefore, incorporated specific additional audit procedures into our audit plan in relation to the risks of fraud in the recognition of income and expenditure, over and above our standard audit procedures.

Group Consideration

21. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

22. East Dunbartonshire Council has a group which comprises component entities, including subsidiaries, associates and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

23. Members of East Dunbartonshire Council are sole trustees for 2 trusts registered as Scottish charities, with total assets of some £0.969 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.

24. 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. Therefore, 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.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

25. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2021/22 Materiality levels for charitable trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
EDC Charitable Trusts & Talbot Christie Bequest	£159 (Based on 1% of audited 2020/21 Gross Expenditure)	£79 (Based on 50% of planning materiality)	£2

Source: Audit Scotland

26. Risk of management override of controls: Auditing standards require that audit work is planned to consider the risk of misstatement arising from the management override of controls. In response to this risk, we will review accounting estimates, judgments and decisions made by management and evaluate any significant transactions that are outside the normal course of the trust business.

Audit risk assessment process

27. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

29. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

30. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Best Value

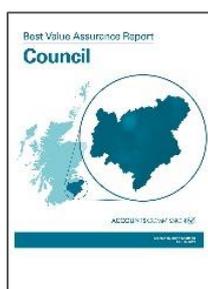
31. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit and reported in the annual audit report.

32. Also, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once over the period of the audit appointment. The East Dunbartonshire Council BVAR was published in September 2021. The Best Value work planned this year will focus on the follow-up of the findings reported in the BVAR. Our findings will be reported through our Annual Audit Report.

33. BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

Exhibit 5

2022 Best Value Assurance Reports



Comhairle nan Eilean Siar

Shetland Island Council

Angus Council

Moray follow-up

Source: Audit Scotland

Audit dimension risks

34. The appointed auditor is required to report conclusions on the wider scope responsibilities and consider the audit dimensions specified in the Code of Audit Practice, [Exhibit 3](#).

35. As part of our audit planning work we have reviewed the wider dimensions of public sector audit applicable to East Dunbartonshire Council and identified the risks set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management and the further audit procedures we plan to perform to gain assurances over the risks. The conclusions from this work will be reported within our 2021/22 Annual Audit Report.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Covid-19 recovery and transformation</p> <p>The council continues to deal with the operational and financial impact of the Covid-19 pandemic. There remain major challenges for the council across a range of areas, including:</p> <ul style="list-style-type: none"> • financial sustainability of services • capacity to deliver services and manage and any service backlogs • staff care and wellbeing concerns <p>To deliver the council's longer-term recovery plans services will need to change. Key to this will be ensuring clear links between the recovery plans and the council's financial planning, the revised Local Outcome Improvement Plan, workforce planning, asset management and the digital strategy.</p>	<ul style="list-style-type: none"> • The Council provided an indication of its next steps and the challenges as part of its budget setting in February 2022. These steps will be set out as part of the Council's Strategic Planning & Performance Framework with associated Reporting to Council at the earliest reasonable opportunity and following the Local Government Elections. 	<ul style="list-style-type: none"> • Consider the 2021/22 financial outturn. • Review the financial monitoring during the year, including the use of reserves and delivery of planning saving. • Consider the 2022/23 revenue budget and required savings target. • Review of the council's consideration of the longer-term financial impact of the Covid-19 pandemic, reflected in its medium term financial plan (approved in November 2021).

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

37. 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.

38. We will provide an independent auditor's report to East Dunbartonshire Council, the Scottish Parliament and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide East Dunbartonshire Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

39. [Exhibit 7](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 7 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Management Committee Date
Annual Audit Plan	31/03/2022	Unknown at present.
Management Report	30/06/2022	Unknown at present.
Independent Auditor's Report	31/10/2022	Unknown at present.
Annual Audit Report	31/10/2022	Unknown at present.

Source: Audit Scotland

Timetable

40. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 8](#) that has been discussed with management.

41. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

42. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 8 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	30 June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with the Director of Finance (or equivalent)	7 October 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	31 October 2022
Agreement of audited and unsigned annual report and accounts	31 October 2022
Issue of Annual Audit Report to those charged with governance.	31 October 2022
Signed Independent Auditor's Report	31 October 2022

Source: Audit Scotland

Audit fee

43. The proposed audit fee for the 2021/22 audit of East Dunbartonshire Council is £268,110 (2020/21: £262,700). In determining the audit fee, we have taken

account of the risk exposure of the East Dunbartonshire Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. We have also agreed an audit fee of £600 (Prior year fee £600) for the charitable trusts.

44. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

45. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

46. From our initial review of the internal audit plans, we plan to consider the findings of Internal Audit across a range of work including I-Proc controls and Grant funding received in order to provide additional audit intelligence and background information for our audit.

Independence and objectivity

47. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

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

Quality control

49. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

50. 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.

51. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

East Dunbartonshire Council

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