Renfrewshire Council

Item 3

To: Audit, Scrutiny and Petitions Board

On: 30 March 2015

Report by: Director of Finance and Resources

Heading: Audit Scotland Annual Audit Plan 2014/15

---

1. **Summary**

1.1 Based on their analysis of the risks facing the Council, Audit Scotland have submitted an audit plan which outlines their approach to the audit of the 2014/15 financial statements in order to assess whether they provide a true and fair view of the financial position of the council, and also whether they have been prepared in accordance with proper accounting practice i.e. the 2014 Code of Practice on Local Authority Accounting in the UK.

1.2 The Plan outlines the responsibilities of Audit Scotland and the council; their assessment of key challenges and risks and the approach and timetable for completion of the audit.

---

2. **Recommendation**

2.1 Members are asked to note the content of the attached report.

Implications of the Report

1. **Financial** – An unqualified audit opinion demonstrates the council has effective systems of internal control in place.

2. **HR & Organisational Development** - None

3. **Community Planning** – None

4. **Legal** - an audit opinion free from qualification demonstrates compliance with the statutory accounting requirements set out in the Local Government (Scotland) Act 1973.

5. **Property/Assets** - None

6. **Information Technology** - None

7. **Equality & Human Rights** - The Recommendations contained within this report have been assessed in relation to their impact on equalities and human rights. No negative impacts on equality groups or potential for infringement of individuals' human rights have been identified arising from the recommendations contained in the report. If required following implementation, the actual impact of the recommendations and the mitigating actions will be reviewed and monitored, and the results of the assessment will be published on the Council's website.

8. **Health & Safety** - None

9. **Procurement** – None

10. **Risk** - the audit plan highlights audit issues and risks, and the approach Audit Scotland will adopt in seeking assurance that these risks are being managed.

11. **Privacy Impact** - None

List of Background Papers

(a) None

Author: Alastair MacArthur Ext 7378

AUDIT SCOTLAND

Renfrewshire Council

Annual Audit Plan 2014/15

March 2015

Contents

Key contacts

Brian Howarth, Assistant Director

bhowarth@audit-scotland.gov.uk

Anne McGregor, Senior Audit Manager

amgregor@audit-scotland.gov.uk

Kenny McFall, Senior Auditor

kmcfall@audit-scotland.gov.uk

Audit Scotland

4th floor (South Suite)

8 Nelson Mandela Place

Glasgow

G2 1BT

Switchboard: 0131 625 1500

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Renfrewshire Council's financial statements.

2. This report summarises the key challenges and risks facing Renfrewshire Council and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
    - the risks and priorities facing Renfrewshire Council
    - current national risks that are relevant to local circumstances
    - the impact of changing international auditing and accounting standards
    - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
    - issues brought forward from previous audit reports.

3. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local authority is the sole trustee. Renfrewshire Council presents two sets of financial statements: one contains three common good funds and the other four charitable trusts, with total net assets of £30m and £0.7m. We audit these financial statements in parallel with the audit of Renfrewshire Council's financial statements.

Summary of planned audit activity

4. Our planned work in Renfrewshire Council includes:
   - an audit of the financial statements and provision of an opinion on whether:
     - they give a true and fair view of the financial position of Renfrewshire Council as at 31 March 2015 and its income and expenditure for the year then ended
     - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
   - an audit of the financial statements and provision of an opinion for the common good funds and charitable trusts where the local authority is the sole trustee
   - reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's (LAN's) assessment since last year
   - a review and assessment of Renfrewshire Council's governance and performance arrangements in a number of key areas including: internal control, the prevention and detection of fraud and irregularity, standards of conduct and the financial position.
   - provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
   - reporting of National Fraud Initiative arrangements and results.

Responsibilities

5. The audit of the financial statements does not relieve management or the Audit, Scrutiny & Petitions Board as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

6. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

7. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Director of Finance and Resources

8. It is the responsibility of the Director of Finance and Resources, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
   - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
   - maintaining proper accounting records
   - preparing financial statements timeously which give a true and fair view of the financial position of Renfrewshire Council as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

9. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. Renfrewshire Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Renfrewshire Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
    - understanding the business of Renfrewshire Council and the risk exposure which could impact on the financial statements
    - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
    - identifying major transaction streams, balances and areas of estimation and understanding how Renfrewshire Council will include these in the financial statements
    - assessing and addressing the risk of material misstatement in the financial statements
    - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

11. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:
    - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
    - clear responsibilities for preparation of financial statements and the provision of supporting working papers
    - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
    - completion of the internal audit programme for 2014/15.

12. 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 early assessment of the internal audit function. Internal audit is provided by the internal audit section within the council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit

Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We also note that an external assessment of compliance against PSIAs is due to be completed in 2015/16 by another local authority.

13. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
    - Non-domestic rates
    - Treasury management
    - Payroll.

14. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
    - Performance measurement framework
    - Asset management
    - Procurement.

15. A report taken to the February 2015 Audit, Scrutiny and Petitions Board noted that as at the end of December 2014, internal audit progress against their phased target was 13.6% behind target. This was attributed to a combination of a long term absence and vacancies earlier in the year, both of which have now been filled. The Chief Auditor confirmed that all the work required allowing her to provide her annual opinion on the overall internal control, risk and corporate governance arrangements will be carried out on time.

Materiality

16. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. Based on our knowledge and understanding of Renfrewshire Council we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £6.3m.

18. We set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:
    - extent of estimation and judgement within the financial statements
    - nature and extent of prior year misstatements
    - extent of audit testing coverage.

19. For 2014/15 performance materiality has been set at £1.6m. We will report, to those charged with governance, all misstatements greater than £100,000.

20. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

21. The Local Authority Accounts (Scotland) Regulations 2014 (the 2014 Regulations) require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority is required to consider the unaudited annual accounts at a meeting by 31 August.

22. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period. This also applies to the unaudited accounts of the common good and charitable trusts administered by Renfrewshire Council.

23. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

24. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.

25. An agreed timetable is included at Exhibit 1 below which takes account of submission requirements and planned Audit, Scrutiny and Petitions Board dates:

Exhibit 1: Financial statements audit timetable

Key stage	Date (all 2015)
Testing and review of internal control systems and transactions	February
Meetings with officers to clarify expectations of working papers and financial system reports	February
Planned council approval of unaudited financial statements	25 June
Submission of unaudited council financial statements	25 June

Key stage	Date (all 2015)
with working papers package	
Submission of unaudited charitable trust and common good financial statements with working papers package	25 June
Progress meetings with lead officers on emerging issues	Weekly during July – August
Latest date for final clearance meeting with Chief Executive and Director of Finance and Resources	4 September
Issue of ISA260 and draft Annual Audit Report agreement of unsigned financial statements for Audit, Scrutiny and Petitions Board agenda	11 September
Audit, Scrutiny and Petitions Board	21 September
Council meeting and approval of accounts for signing	24 September
Independent auditor's report signed	25 September
Issue of Annual Audit Report	25 September
Latest date for submission of unaudited whole of government accounts to external audit	30 July
Latest date for signing of WGA return by auditor	2 October

26. 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 responsible head of service and relevant officers to confirm factual accuracy. A copy of all final agreed reports will be sent to the Director of Finance and Resources, relevant head of service, internal audit and Audit Scotland's Performance Audit and Best Value Group.

27. We will provide an independent auditor's report to Renfrewshire Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be combined with the ISA 260 report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than previous years.

28. All annual audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

29. Planned outputs for 2014/15 are summarised at Appendix I.

Quality control

30. 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. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

31. 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 do, however, welcome feedback at any time and this may be directed to the engagement lead, Brian Howarth.

Independence and objectivity

32. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) 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 Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

33. 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 Renfrewshire Council.

Audit issues and risks

34. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for Renfrewshire Council. We have differentiated risks between those related to the financial statements risks and those related to our wider audit responsibilities. The financial statements risks, which require specific audit testing, are summarised at Appendix II.

Financial statement audit issues and risks

35. **Signing of the accounts**: The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The council's scheme of delegation is still to be updated to reflect the revised Regulations and officers plan to take a revised scheme to June Council meeting for approval. We will liaise with officers to ensure that this audit is delivered within the revised timetable.

36. **Income**: Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. Renfrewshire Council receives the majority of its funding from the Scottish Government, but still receives a significant amount from other sources including council tax income, fees and charges for services and interest and investment income. The extent of income means there is an inherent risk that income could be materially misstated. We will substantively test revenue streams to ensure that income has been completely and accurately recorded.

37. **Management override of controls**: ISA 240 also requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively. We will design and perform audit procedures to address these risks within the Council.

38. **Management commentary:** The 2014 regulations require, for the first time, the inclusion of a management commentary in the financial statements. The Scottish Government is providing guidance on the content of the management commentary but these guidelines are still to be issued. The Code encourages authorities to take into account the relevant provisions of the Government Financial Reporting Manual (FREM) in respect of management commentaries.

(https://www.gov.uk/government/publications/government-financial-reporting-manual). The FREM requires greater disclosures than have been included to date as part of the Explanatory Forewords. We will review the unaudited annual accounts to ensure they comply with the new accounting regulations.

39. **Group Accounts**: As a result of the adoption of IFRS 10 *Consolidated financial statements*, the definition of control has been revised and now focuses on an authority's ability to use its power over the entity to affect the amount of the returns from its involvement with the entity. This means that decisions made under previous accounting standards regarding the classification of entities, particularly leisure trusts (e.g. as associate, rather than subsidiary), will need to be reviewed to confirm they remain appropriate.

40. Officers are preparing an updated group boundary assessment and will review the judgements contained with this assessment and the disclosures within the group financial statements.

41. **Holiday Pay:** In 2014 case law developments challenged whether or not the basis on which holiday is calculated, are in line with EU law. In November 2014 the Employment Appeal Tribunal ruled that holiday pay should reflect non-guaranteed overtime. In line with external legal advice, the council calculated the impact on holiday pay costs for the 2014 annual leave year (which runs from January to December). However, the council has now received claims for a 'back-dated' element of the costs. An assessment of potential liability will be required for the accounts. Officers are reviewing the claims but the extent of the liability is currently unknown. An unquantified contingent liability was included in the financial statements for 2013/14. This will be reviewed as part of the 2014/15 financial statements audit.

42. **Severance payments** There is a lot of structural change to be managed in addition to senior staff changes and over 100 staff leaving under voluntary severance in 2014/15. We will review the financial liabilities and financial statement disclosures associated with the severance scheme and review a sample of cases for evidence of proper approval and reporting processes and for evidence of a business case demonstrating best value.

43. There is a risk that the financial liabilities associated with these severances will not be completely or accurately reflected in the financial statements or the remuneration report. There is also a risk that any payment may not be fully supported by appropriate authorisation and a business case.

44. **Common Good**: our annual audit report for 2013/14 noted that the revaluation reserve in the common good account for Renfrew Common Good is an historic balance, which officers are unable to fully substantiate. There may be a technical accounting error in the allocation of the reserves between Unrestricted Funds and the Revaluation Reserve. Officers are

investigating this and we follow up progress as part of our financial statements audit.

Wider dimension audit issues and risks

45. **Financial sustainability:** Officers estimate that over the medium term to 2017/18 annual recurring savings of £30 million are required. Based on decisions taken to date £16m annual savings has been identified; included with this, the initial phase of the Better Council Change Programme (2014-2017) is anticipated to realise savings of £8.4 million over the medium term. There are additional financial risks arising from pay pressures and growing demand pressures on key service areas, principally social work.

46. Based on results to 2 January 2015, officers estimate a very small revenue underspend of £230,000 (0.1%) for 2014/15 financial year.

47. We will review the detailed budget papers and assess progress/ achievement against identified savings plans and the budgeted financial outturn.

48. **Health and Social Care Integration (HSCI):** Health and social care for adults will be implemented locally from 1 April 2015 with full integration arrangements due for 1 April 2016. Management have advised that they are on track to submit their integration scheme by the 1 April 2015 deadline and to implement full integration by 1 April 2016. A chief officer designate was appointed in January 2015 and recruitment of a chief finance officer is imminent.

49. **Changes in senior management:** A number of structural changes were approved over the past six months and following the appointment of a new Chief Executive in December 2014, a review of existing management structures was carried out. This has resulted in fewer directors and various corporate support functions being consolidated under new heads of service. The revised management structure will be implemented in 2015/16.

50. **Performance management:** In our annual audit report on the audit 2013/14 published in October 2014, we reported that the new council plan 2014-2017, *A Better Future, A Better Council* describes what the council will do to deliver community plan objectives, but that a suite of performance measures was still to be developed. A council plan scorecard is currently being incorporated into the corporate management team quarterly scorecard and will be reported to the Leadership Board in spring 2015. We will review the scorecard and assess whether it represents a fair and balanced reflection of performance.

Summary assurance plan

51. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix II. In the period prior to the

submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

National performance audit studies

52. Audit Scotland's Performance Audit and Best Value(PABV) Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission.

53. In line with Audit Scotland's strategy to support improvement through the audit process PABV Group is currently scoping a piece of work to collect baseline information about finance departments and the control environment across the public sector. Audit feedback indicates that overall reductions in staff numbers in public bodies may be affecting the capacity of back-office functions, including finance and other related activities. The information will be used to identify a number of common and emerging issues and may be reported in sector specific overview reports or within individual annual audit reports. The information would also support the development of the future performance audit programme.

54. The Accounts Commission is aware of the financial difficulties facing councils over the next few years and has asked Audit Scotland to provide it with an update paper setting out the funding gaps facing all councils in the next few years.

55. Details are being clarified as to the extent of the work and we will liaise with the Director of Finance and Resources on audit work to be carried out at Renfrewshire Council.

Fees and resources

Audit fee

56. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.

57. In determining the audit fee we have taken account of the risk exposure of Renfrewshire Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 25 June 2015.

58. The agreed audit fee for the 2014/15 audit of Renfrewshire Council is £354,610. This includes £4,550 and £1,000 for our work on the common good and charitable trust accounts, respectively. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
- Renfrewshire Council's allocation of the cost of national performance audits and statutory reports by the Accounts Commission
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

59. 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.

Audit team

60. Brian Howarth, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Anne McGregor, who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

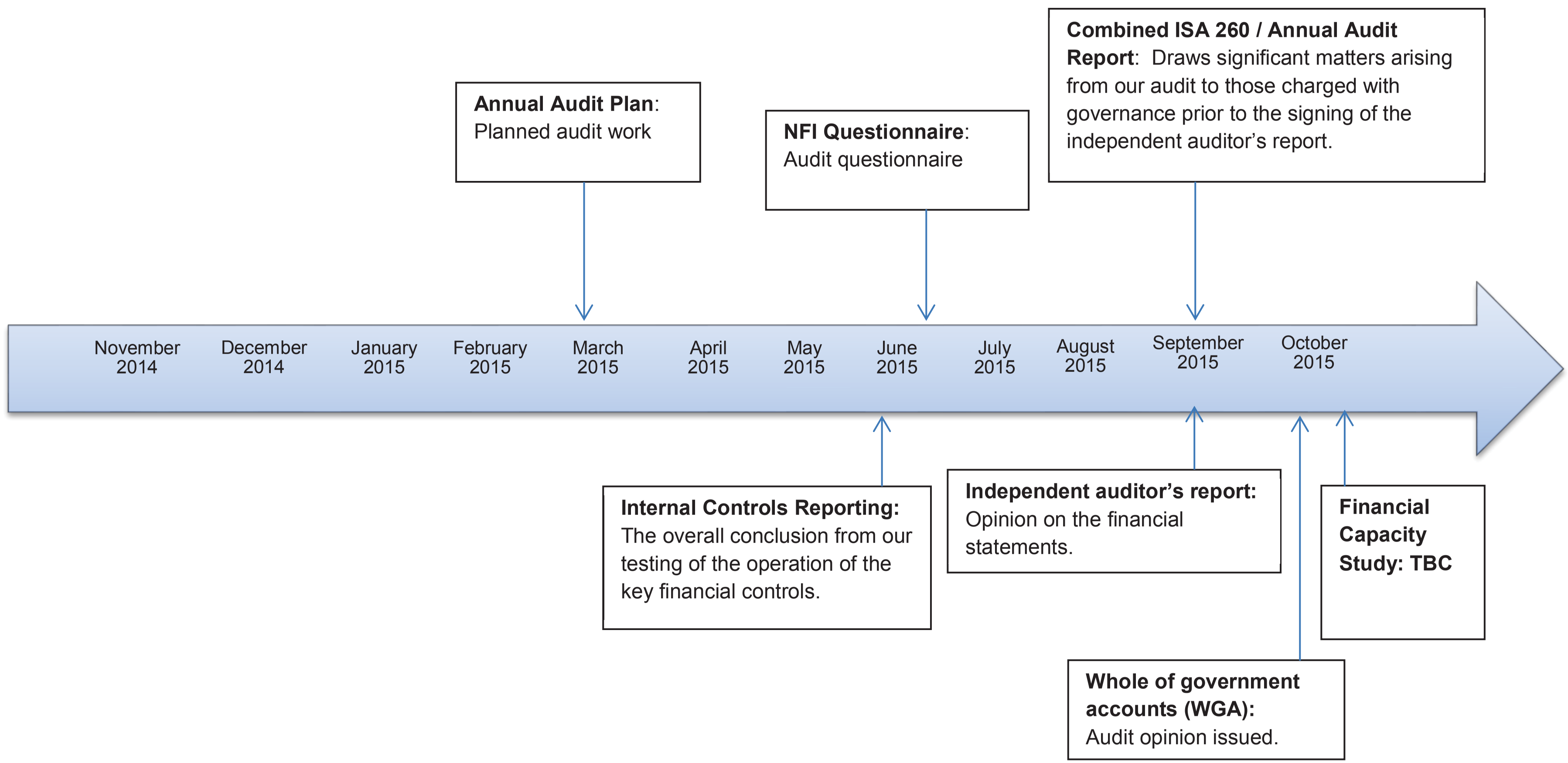
Exhibit 2: Audit team

Name	Experience
B Howarth, ACMA CGMA, Assistant Director	Brian has over 20 years experience of public sector audit across central government, local government, health and the further education sectors. Prior to joining Audit Scotland, Brian worked in the Scottish Office and an NDPB for 7 years. Brian also manages Audit Scotland's Business Improvement Unit and its Professional Standards & Quality Improvement Group.
Anne McGregor, CA, Senior Audit Manager	Anne has over 15 years experience of public sector audit after working in the private sector for 7 years. Her public sector audit experience includes central and government and she has been involved in a number of business improvement projects within Audit Scotland.
Kenny McFall, CPFA, Senior Auditor	Kenny has 13 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors.
Stephen Mors, CPFA, Senior Auditor	Stephen has worked for Audit Scotland for 7 years having originally joined and progressed through the graduate trainee programme. His experience is mainly within local and central government sector. He has also worked on Audit Scotland business improvement projects.
Jim Cumming, Senior Auditor ICT	Jim has 13 years experience of public sector ICT audit with Audit Scotland, covering local government, health, central government sectors. Prior to working for Audit Scotland, Jim spent 15 years in various IT roles including development, project management, operational and system administration roles in the engineering industry.
Gordon McAllister, CPFA, Auditor	Gordon joined Audit Scotland in 2009 as a graduate trainee and qualified in 2013. Gordon has a BA (Hons) degree in Finance and Marketing. He has worked on the audits of a wide range of local and central government bodies.
Andrew Kerr, Trainee Auditor	Andrew joined Audit Scotland in October 2013 and has been involved in local

Name	Experience
	government and central government audits. He is currently studying towards his ICAS qualification.
Andrew Wallace, Trainee Auditor	Andrew joined Audit Scotland in October 2014 and is currently studying towards his ICAS qualification.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Renfrewshire Council in 2014/15.



Appendix II: Significant audit risks

We undertake a risk-based audit whereby we focus on those areas where we have identified a risk of material misstatement in the accounts. This section shows how our audit approach focuses on the risks we have identified through our planning procedures. ISA 315 *Identifying and assessing the risks of material misstatement through understanding the entity and its environment* defines a significant risk as "an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration."

Here we identify a range of risks, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of Renfrewshire Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Audit Risk	Source of assurance	Assurance procedure
Audit risk of material misstatement in financial statements		
Requirements of the new accounting regulations: The Local Authority Accounts (Scotland) Regulations 2014 require the local authority to meet by 30 September to consider whether to approve the audited annual accounts for signature. These new regulations include a requirement for a management commentary in the financial statements.	• A timetable to ensure new requirements are met has been agreed with elected members. • The scheme of delegation will be amended for approval at the June 2015 Council meeting and specify the Council will formally approve the audited annual accounts.	• Review the revised scheme of delegation to ensure changes due to the 2014 Regulations are included • Continue to liaise with officers to deliver the audit to the revised timetable • Our audit of the 2014/15 financial statements will review compliance with the new accounting regulations and management commentary disclosures

Audit Risk	Source of assurance	Assurance procedure
Income Renfrewshire Council receives a significant amount of income in addition to SG funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.	• Closedown procedures clearly explain work to be done on identifying all transactions for relevant accounting period. • Revenue monitoring reports are presented to relevant policy boards during the year with explanations provided on large or unusual movements.	• We will substantively test revenue streams to ensure that income has been completely and accurately recorded
Management override of controls As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	• N/A	• Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business.
Management commentary The 2014 Regulations require that the accounts include a management commentary but Scottish Government guidelines on format and content are still to be issued. Officers may have to refer to wider Government Financial Reporting Manual guidance in order to construct a fully compliant commentary.	• Officers regularly liaise with Scottish Government and other local authority finance staff to ensure they quickly identify any changes or developments • Significant changes to that previously disclosed in the foreword will be discussed with Audit Scotland	• Our audit of the 2014/15 financial statements will review in detail compliance with the new accounting regulations and management commentary disclosures.

Audit Risk	Source of assurance	Assurance procedure
Group Accounts: As a result of the adoption of IFRS 10, the definition of control has been revised. This is used to determine treatment of interests in other entities. There is a risk that the financial statements for 2014/15 do not correctly account for, or disclose, the group arrangements.	• Officers are preparing a boundary assessment to ensure group entities are correctly defined and accounted for	• Review of group boundary assessment for group entities • Review completeness and accuracy of disclosures within the group financial statements.
Holiday pay: Councils may be liable for 'back-dated' element of holiday pay costs, however there is uncertainty over the potential liability and there is a risk that this may be understated in the financial statements or not adequately disclosed.	• The council has received claims • Finance staff will liaise with legal services as part of the accounts preparation process for potential progress in legal cases during the year.	• Discussions to be held with Legal services during the financial statements audit. • Assessment of judgements and evaluations made by officers and of the financial liability at 31 March 2015 to ensure completeness and accuracy

Audit Risk	Source of assurance	Assurance procedure
Severance payments There is a lot of structural change to be managed in addition to senior staff changes and over 100 staff leaving under voluntary severance in 2014/15. There is a risk that the financial liabilities associated with these severances will not be completely or accurately reflected in the financial statements or the remuneration report. There is also a risk that any payment may not be fully supported by appropriate authorisation and a business case.	• Business Cases • Council papers	• Substantive testing of a sample of severance payments to ensure that they are appropriately authorised and reported to committee and represent best value • Review of the classification, completeness and accuracy of liabilities, within the financial statements, associated with the severance scheme. • Review of the associated disclosures within the financial statements including the remuneration report
Common Good: The revaluation reserve in the Common Good accounts is an historic balance, which council officers are unable to fully substantiate. There may be a technical accounting error in the allocation of the reserves between Unrestricted Funds and the Revaluation Reserve.	• Officers are reviewing the basis of the reserve and tracing back movements to prior years	• Ongoing discussion with finance staff during planning and controls work • Detailed review of the allocation of common good reserves between unrestricted and revaluation elements during financial statements audit

Audit Risk	Source of assurance	Assurance procedure
Audit risk to wider code of practice responsibilities		
Financial position and funding gap Officers estimate that over the medium term to 2017/18 annual recurring savings of £30 million are required. The initial phase of The Better Council Change Programme (2014-2017) is anticipated to realise savings of £8.4 million over the medium term. There are additional financial risks arising from pay pressures and growing demand pressures on key service areas There is a risk that savings targets are not met and the ongoing need to deliver savings may have an impact on services and the delivery of strategic priorities.	Savings will be achieved through: • service and management restructuring • debt smoothing strategy • savings from accommodation costs • review of corporate support model.	• Review of detailed budget papers. • On-going discussion with council officers. • Review of progress/ achievement against savings plans and the budgeted financial outturn.
Performance management: A suite of performance measures is still to be developed to support the new council plan 2014-2017, *A Better Future, A Better Council* There is a risk that the performance against the new council plan is not transparent.	• A council plan scorecard is currently being incorporated into the corporate management team quarterly scorecard and will be reported to the Leadership Board in spring 2015	• We will review the scorecard and assess whether it represents a fair and balanced reflection of performance.