
To: Audit, Scrutiny and Petitions Board

On: 25 April 2016

Report by: Director of Finance and Resources

Heading: Audit Scotland Annual Audit Plan 2015/16

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 2015/16 financial statements of the Council and the charities it controls 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 2015 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.
- 1.3 Audit Scotland have also recently published further guidance for elected members with regards the annual accounts, "Why the Accounts Matter" and this report is also attached for members information.

2. Recommendations

- 2.1 Members are asked to note the content of the attached reports.
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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
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Renfrewshire Council

Annual Audit Plan 2015/16

Prepared for Members of Renfrewshire Council

March 2016



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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Brian Howarth as the external auditor of Renfrewshire Council for the period 2011/12 to 2015/16.

This report has been prepared for the use of Renfrewshire Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Summary

financial statements in parallel with the audit of Renfrewshire Council's financial statements.

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 2015/16. Our plan reflects:
 - the risks and priorities facing Renfrewshire Council
 - current national risks that are relevant to local circumstances
 - 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 £32m and £0.7m, respectively. We audit these

Summary of planned audit activity

4. Our planned work in 2015/16 includes:
 - an audit of the financial statements including opinion on whether:
 - they give a true and fair view of the state of affairs of Renfrewshire Council and its group as at 31 March 2016 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 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - 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 controls and adequacy of internal audit
 - 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

- collection of relevant financial and performance information to inform Audit Scotland's national reports.

Responsibilities

5. The audit of the financial statements does not relieve management or the Audit, Scrutiny and 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:
 - maintaining proper accounting records

- preparing financial statements which give a true and fair view of the state of affairs of Renfrewshire Council and its group as at 31 March 2016 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.
10. 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

11. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Renfrewshire Council and its group. 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 its group 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.

12. 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. Planned management action being relied on for 2015/16 includes:

- comprehensive closedown procedures for the council and group 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 2015/16.

13. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are provided by the Internal Audit section of the council. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an early assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

14. Overall we concluded that the Council's internal audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place.

15. 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
- Self-Directed Support Payments
- Payment authorisation
- External funding applications.

16. 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:

- review of Local Government Benchmarking indicators
- Corporate Governance Framework
- Workforce planning
- Tendering arrangements.

Materiality

17. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, 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.

18. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

19. Based on our knowledge and understanding of Renfrewshire Council we have set our planning materiality at £6.37m (1% of gross expenditure).

20. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. 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.

21. For 2015/16 performance materiality has been set at £1.59m. We will report, to those charged with governance, all misstatements identified which are greater than £100,000.

Reporting arrangements

22. The Local Authority Accounts (Scotland) Regulations 2014 (2014 regulations) require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
23. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.
24. 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.

25. 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.

A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date (all 2016)
Testing and review of internal control systems and transactions	March - April
Meetings with officers to clarify expectations of working papers and financial system reports	March
Consideration of unaudited financial statements by Council	23 June (TBC)
Latest submission date of unaudited council financial statements with complete working papers package	30 June
Progress meetings with lead officers on emerging issues	Weekly during July and August
Final clearance meeting with Chief Executive and Director of Finance and Resources	6 September
Issue of ISA 260 and draft Annual Audit Report, agreement of audited unsigned financial statements for Audit, Scrutiny and Petitions Board	8 September
Audit, Scrutiny and Petitions Board	19 September
Approval of accounts for signing at Council meeting	29 September
Independent auditor's report signed	29 September

Key stage	Date (all 2016)
Final Annual Audit Report issued	29 September
Latest date for signing of WGA return by auditor	30 September

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 Chief Executive, Director of Financial and Resources, relevant senior officers, 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. The combined ISA 260 and Annual Audit Report will be issued by 30 September 2016.

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

29. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

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. This is to provide reasonable

assurance that those 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. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the senior finance officer of the circumstances and of the steps we have taken to manage this. We are not aware of any other such relationships pertaining to the audit of Renfrewshire Council.

Audit issues and risks

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 risk areas for Renfrewshire Council. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

Financial statement issues and risks

35. **Pressures on preparing the accounts:** At councils, May and June are traditionally busy months for finance teams preparing accounts and supporting documentation for the audit. The following pressures below combine to increase the risk the accounts will not be prepared in time to meet June deadlines, or that all supporting documentation will be not ready for the beginning of the audit:
 - The Council meeting planned for 23 June, to consider the unaudited financial statements, may now be brought forward. The revised date is still to be decided but some group information may not be available in time to meet new timescales.
 - There have been changes in finance responsibilities with new staff preparing different parts of the accounts

- Finance staff are also working on procuring and implementing a new enterprise, resource planning system.

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. **Holiday Pay:** In 2014 case law developments challenged whether or not the basis on which holiday pay is calculated, is in line with EU law. The Employment Appeal Tribunal ruled that holiday pay should reflect non-guaranteed overtime. The council has now received 355 claims for a 'back-dated' element of the costs. Officers are reviewing the claims but the extent of the liability is currently unknown as currently there have been no cases yet ruled upon in the courts. 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.

38. **Valuations:** The financial statements of the Council include valuations for non current assets (property, plant and equipment) and pensions which are determined by professional judgement and include significant assumptions and estimates. There is a risk that

any subjective judgement/error in the valuation assumptions would have a significant impact on the financial statements.

39. **Management override of controls:** Internal Standards on Auditing 240, *The Auditor's responsibilities relating to fraud in an audit of financial statements* states that audit procedures should be responsive to risks related to management override of controls. We will design and perform audit procedures to address these risks at the council.

Wider dimension issues and risks

40. **Financial Sustainability** – In our Annual Report on the Audit for 2014/15 (September 2015) we noted that the council anticipated that recurring savings of around £30 million would be required over the medium term but that overall the financial position is sustainable, currently and in the foreseeable future, based on the short term cashflow position, record of statutory surpluses, stable reserves' position and low level of external borrowing.
41. On 3 March 2016 the council approved a balanced budget of £382 million. This includes additional £8.8m social care funding from the Scottish Government. The underlying saving required is over £20million. Officers now forecast a remaining gap of between £1million to £6million for 2017/18 after the impact of the Better Council Change Programme and debt smoothing strategy. If savings are not realised then there is a risk to the balanced budget.

National performance audit studies

42. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

Scotland's Public Sector Workforce

43. In November 2013 the Accounts Commission and Auditor General published a report on Scotland's Public Sector Workforce. The report highlighted a number of key messages on workforce changes across Scotland in the public sector and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities.
44. For 2015/16 we will carry out local follow up work, based on the recommendations in the 2013 report. The aim in collecting the follow up information is to provide the Accounts Commission and the Auditor General with an understanding of the impact of the 2013 report and in particular, the extents to which public bodies are implementing the recommendations. The information will be available for use in our sector specific overview reports and within the council's annual audit report.

Financial Reporting & Scrutiny: Why the Accounts Matter

45. The financial accounts are a vital part of the council's accountability framework, and they provide members with the information they require to scrutinise the use of funds in the year and to make budgetary decisions for the future.
46. In 2014/15 councils faced the challenge of producing the accounts to tighter timescales as prescribed by the new accounts regulations. Audit Scotland auditors have said that councils generally responded well to this challenge, bringing forward the completion of the accounts for member approval by 30 September.
47. For 2015/16 we will review and discuss the Audit Scotland paper, *Financial Reporting & Scrutiny: Why the Accounts Matter*. The paper includes a list of questions for elected members to consider when reviewing the accounts. We will request an opportunity to discuss this paper with members of the Audit, Scrutiny & Petitions Board and we expect that members could use the questions in considering the accounts and Annual Audit Report at their meeting in September.

Best Value Intelligence Summary

48. **Audit Work** - As part of Audit Scotland's work on revising the approach to Best Value, for 2015/16 we will develop a baseline intelligence summary of Best Value for each Scottish council. This will involve forming conclusions and judgements about the effect and impact of the Council's arrangements and plans on risks identified. The review will draw upon the extensive knowledge

acquired by the local audit team over the five-year audit appointment to 2015/16. We will also consider the findings from the Shared Risk Assessment (SRA) and the annual audit process.

49. The baseline information collected will support the planning for the next programme of Best Value audit work and will also provide additional insight for the SRA in autumn/winter 2016/17.

Fees and resources

Audit fee

50. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.

51. In determining the audit fee we have taken account of the risk exposure of Renfrewshire Council, the planned 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 2016.

52. The agreed audit fee for the 2015/16 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
- your organisations allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland

- 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.

53. 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

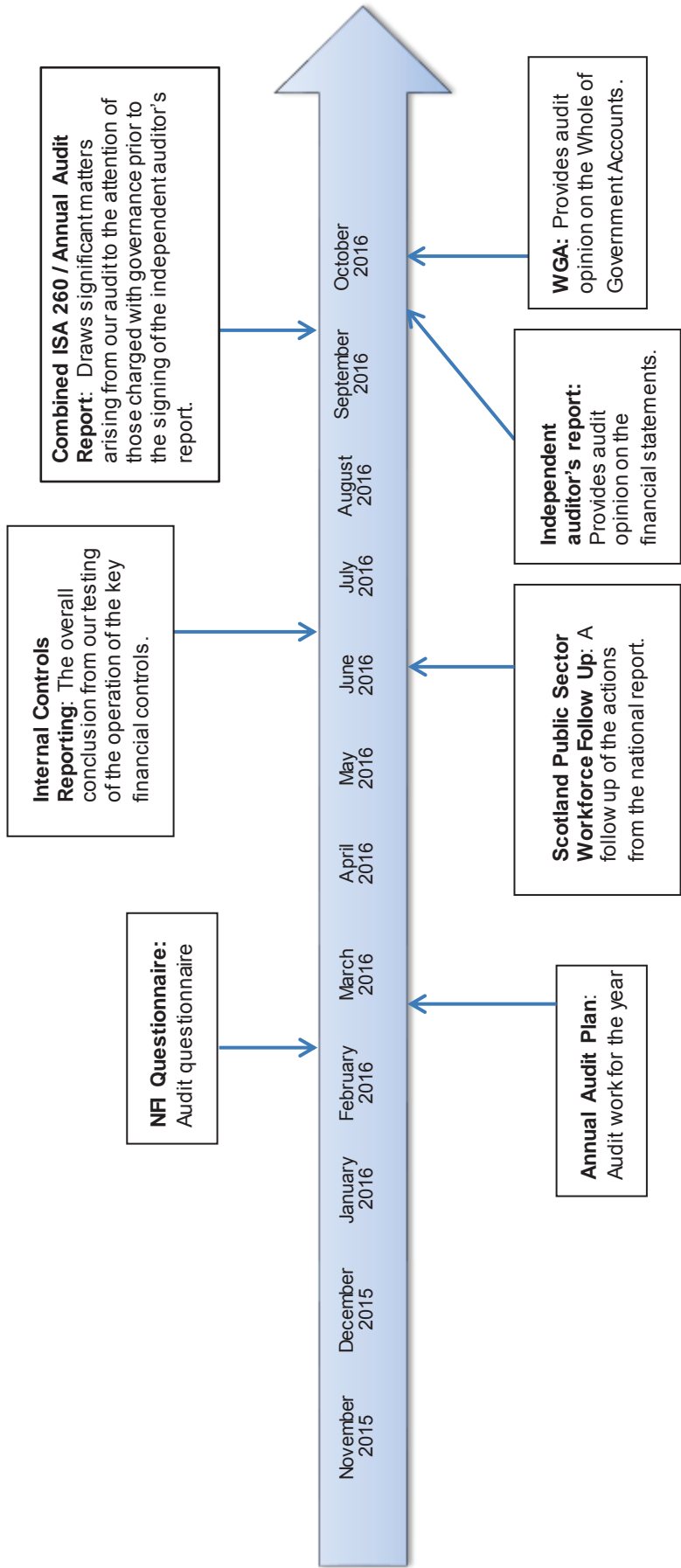
54. Brian Howarth, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Anne McGregor who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit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

Exhibit 2: Audit team

Name	Experience
Brian Howarth, ACMA CGMA <i>Assistant Director (and certifying auditor)</i>	Brian has over 20 years experience of public sector audit across central government, local government, health and the further education sectors. Brian also manages Audit Scotland's Business Improvement Unit and its Professional Standards & Quality Improvement Group.
Anne McGregor, CA <i>Senior/Audit Manager</i>	Anne has over 16 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 <i>Senior Auditor</i>	Kenny has 14 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors.
Jim Cumming <i>Senior Auditor ICT</i>	Jim has 13 years experience of public sector ICT audit with Audit Scotland, covering local government, health, central government sectors
Kyle McAulay <i>Auditor</i>	Kyle joined Audit Scotland in 2012 as a professional trainee having studied accountancy at Glasgow Caledonian University. He has recently become ICAS exam qualified.
Andrew Kerr <i>Professional Trainee</i>	Andrew joined Audit Scotland in October 2013 and has been involved in local government and central government audits. He is currently studying towards his ICAS qualification.
Andrew Wallace <i>Professional Trainee</i>	Andrew joined Audit Scotland in October 2014 and is currently studying towards his ICAS qualification.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for Renfrewshire Council for financial year 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	Pressures on preparing the accounts Due to changes in finance staff preparing aspects of the accounts and others also working on implementing the new ERP system there is a risk the accounts will not be delivered to meet council deadlines, or insufficient working papers be available.	<ul style="list-style-type: none"> Council has delivered to timescales throughout the audit appointment. Closedown procedures clearly explain work to be done on identifying all transactions for relevant accounting period. Group boundary assessment currently being reviewed. Experienced staff still work for the council and available to provide advice when required. As in previous years, supporting documentation is prepared based on working paper checklist from auditors. 	<ul style="list-style-type: none"> Meet with finance staff in March to discuss expectations on working papers and review any revised timetable. Meet with key offices each week during the audit to bring queries to officers' attention early in the audit process. Review the completeness of submissions in the unaudited financial statements.
2	Income Renfrewshire Council receives a significant amount of income in addition to Scottish	<ul style="list-style-type: none"> Revenue monitoring reports are presented to relevant policy boards during the year with explanations provided on large or unusual movements. 	<ul style="list-style-type: none"> We will substantively test revenue streams to ensure that income has been completely and accurately recorded. We will review the results of the internal

#	Audit Risk	Source of assurance	Audit assurance procedure
	Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.	<ul style="list-style-type: none"> Closedown procedures clearly explain work to be done on identifying all transactions for relevant accounting period. Internal audit review External Funding applications for EU Leader programme. 	audit work and assess if additional work required.
3	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.	<ul style="list-style-type: none"> The council has received 355 claims and finance staff will liaise with legal services as part of the accounts preparation process for potential progress in legal cases during the year. 	<ul style="list-style-type: none"> 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 2016 to ensure completeness and accuracy.
4	Valuations Land, properties and pensions are subject to annual valuation exercises. There is a risk that any subjective judgement/error in the valuations would have a significant impact on the financial statements.	<ul style="list-style-type: none"> Early management review of estimates and assumptions used by valuers. 	<ul style="list-style-type: none"> Review the work of the management experts used in these areas to enable us to place reliance on these "management experts" in accordance with ISA 500.
5	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	<ul style="list-style-type: none"> N/a. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates for bias. Evaluating significant transactions that are outside the normal course of business.

#	Audit Risk	Source of assurance	Audit assurance procedure
	financial statements by overriding controls that otherwise appear to be operating effectively.		
Wider dimension issues and risks			
6	<p>Financial Sustainability</p> <p>Council has approved a balanced budget for 2016/17 and officers currently project a remaining funding gap of up to £6m for 2017/18; however, if savings targets are not met and significant changes to assumptions there is a risk to the budgeted position and the ongoing need to deliver savings may have an impact on services and the delivery of strategic priorities.</p>	<ul style="list-style-type: none"> • 0.3% underspend projected for 2015/16. • Robust governance, change management support and strong financial management arrangements have been put in place to oversee delivery of the Better Council Change Programme. • Debt smoothing strategy remains part of 2016/17 and 2017/18 budget. • Policy Boards and Finance and Resources Policy Board get revenue and capital monitoring reports with projected year-end included in each report. • Objective to 'Continue to protect the financial stability of the Council during a period of further grant reductions' is part of revised Council plan approved by council in December 2015. • Over the course of the next six months the medium-term financial plans will be refreshed. 	<ul style="list-style-type: none"> • Review of detailed budget papers. • On-going discussion with council officers. • Review of detail of savings planned and the progress/ achievement against these.

Appendix 3: Progress on Annual Audit Report Actions

The table below sets out the current position of the action plan points agreed in our 2014/15 annual audit report.

#	Issue/Risk/Recommendation	Management Action/ Response	Current Position
1	<p>Convenor of the Audit, Scrutiny and Petitions Board</p> <p>The convenor of the Audit, Scrutiny and Petitions Board is currently a member of the administration when best practice would be for the convenor to be from the opposition. We recommend that this position is reviewed in the medium term and that the administration following the local government elections in 2017 adopt a policy of having the convenor of the main audit and scrutiny board from the opposition.</p>	<p>The March 2015 Local Government Overview Report, which recommends that convenor come from opposition was included in papers for members of the Audit, Scrutiny and Petitions Board in June 2015.</p> <p>The next local government elections will not take place until 2017. The Head of Corporate Governance will raise with the incoming administration the Audit Scotland recommendations on convenor of audit committees.</p>	There will be no change prior to the 2017 local government elections.
2	<p>Register of interests</p> <p>Register of interests for members are available on the council website but the register for chief officers is not. We recommend that all register of interests are made available on the Renfrewshire Council website.</p>	The council will consider the recommendation taking into account good practice in other public sector organisations and the interaction of public disclosure with other relevant legislation and regulation.	A report was considered by the corporate management team in December 2015 where it was agreed that the Head of Corporate Governance will further consult with chief officers and will report to the CMT prior to the next update of the Register in May 2016.

#	Issue/Risk/Recommendation	Management Action/ Response	Current Position
3	<p>ALEO performance</p> <p>Renfrewshire Leisure Limited was expanded as a newly established Leisure and Cultural Trust in July 2015.</p> <p>Reporting arrangements on the ALEO performance should be reviewed to ensure that the council exercises routine monitoring, overall scrutiny and undertakes periodic review of its ALEO arrangements.</p>	<p>The council agreed in December 2014 revised reporting arrangements for the new Trust which would take effect once it was established. These arrangements will now come into effect, with performance of the Trust being monitored through reports to the Leadership Board.</p>	<p>There have been no reports taken to the Leadership Board to date but a report on progress and plans for monitoring and performance review will be considered by the Leadership Board at their March 2016 meeting.</p>
4	<p>Health and social care integration</p> <p>There are many governance and operational arrangements to be agreed prior to the implementation date of 1 April 2015 and regulations have still to be issued by the Scottish Government.</p> <p>Once regulations are issued plans should be reviewed for progress and resource pressures.</p>	<p>Risk log in place and monitored for progress and emerging risks.</p> <p>Plans are in place for all tasks to ensure implementation by 1 April 2016.</p>	<p>From discussion with officers and review of progress updates, all tasks remain on course for implementation by the 1 April 2016, except for the 2016/17 budget; this depends on the health budget being available but which is not agreed until June.</p> <p>Internal audit reported to the Audit, Scrutiny and Petitions Board in March 2016 that:</p> <ul style="list-style-type: none"> the financial governance and assurance arrangements in place were found to be in line with the Act, Regulations and professional guidance. There is a well established budget setting process within the Council and due consideration was given to all material adjustments.

#	Issue/Risk/Recommendation	Management Action/ Response	Current Position
5	<p>Progress reports on council plan</p> <p>The council plan <i>A Better Future, A Better Council</i> includes over 170 actions. Updates to members focus on key messages only.</p> <p>We recommend that the council considers a revised form of reporting which captures the range of performance across 170 actions. This might include an overall assessment of achievement against the total number of actions and illustrations of actions achieved as well as those not achieved.</p>	<p>As part of the heads of service changes, a new Head of Policy and Commissioning was appointed in June 2015, who will be reviewing performance management arrangements.</p>	<ul style="list-style-type: none"> The baseline budget was agreed to supporting records and the assumptions made were reviewed and found to be reasonable. <p>A revised council plan was approved by Council in December 2015. It is more focused, includes targets for outcomes and measures (though some new indicators require targets or baseline data) and now includes key projects for the council e.g. City Deal, UK culture bid. Progress will be reported back through the Leadership Board, with more detail continuing to be through service improvement plans and policy boards.</p>

Financial Reporting & Scrutiny: Why the Accounts Matter



Prepared for Local Government
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Financial Reporting & Scrutiny: Why the Accounts Matter

The role of financial reporting

1. Effective planning, management and scrutiny of the use of public funds are a key part of a local authority's responsibilities. The financial statements (commonly known as the accounts) are a vital part of the accountability framework, as they demonstrate how an authority has spent its resources. They also record assets used, and liabilities incurred, in delivering services.
2. Audited accounts provide the public with reliable information about the stewardship of funds and the financial position of the authority. They provide elected members with information to scrutinise the use of funds in each year, and to make budgetary decisions for the future.
3. The accounts are prepared based on International Financial Reporting Standards (IFRS). Under local government accounting rules councils make a number of adjustments to the IFRS financial results to determine the impact on the General Fund, and consequently the level of council tax set for future years. For example large adjustments are made for the accounting treatment of fixed assets and pension costs. Councils monitor their financial results relative to the General Fund, and not on an IFRS basis. In taking decisions, it is therefore important that members understand the link between what the accounts show on the council's spending, assets and liabilities, and the budgetary outturn information.

Your role in the accounts process

Role of the s95 officer	Role of elected members	Role of the auditor
<ul style="list-style-type: none">• Responsible for the preparation and submission of the financial statements, in accordance with proper accounting practice.• To support the Audit Committee in their scrutiny role.	<ul style="list-style-type: none">• To scrutinise and approve the accounts.• To consider the financial results reported in setting future budgets and reserves policies.• To consider the annual audit report and hold officers to account on areas of concern reported.	<ul style="list-style-type: none">• To provide an independent auditor's report on whether the accounts show a 'true and fair view' of the financial position.• To provide an annual audit report addressed to members and the Controller of Audit, reporting significant audit findings.

Developments in financial reporting in 2014/15

4. In 2014/15 council's faced the challenge of producing the accounts to tighter timescales as prescribed by new accounts regulations¹.
5. External auditors said that councils generally met this challenge well. They commented as follows:
 - The councils did well to bring forward the completion of the accounts for approval by members by 30 September.
 - Members welcomed receiving the audited accounts for approval alongside the auditors' annual audit reports.
6. The auditors also commented on some areas for improvement:
 - The accounts are complex and lengthy documents. Some s95 officers could do more to explain to the Audit Committee the role of the accounts, and what they show about the council's performance.
 - The management commentaries could do more to explain the overall picture regarding the council's financial performance and challenges.
 - Some members need more guidance on what they are looking for when reviewing and approving the accounts.
 - It is disappointing that members do not ask more questions about the issues raised in our annual audit reports.
 - The standing orders in some councils need to be updated to reflect the processes adopted for approving the accounts under the new regulations.
7. In light of these key messages we have compiled a list of questions, at Appendix 1, for members to consider when reviewing the accounts.
8. Your local auditor will request an opportunity to discuss this paper with members of the audit committee prior to the June meeting at which they consider the draft accounts. The expectation is that the audit committee members could then use the questions in considering the accounts and annual audit report at their meetings in June and September.
9. This paper complements the messages in the 2011 Local Authority (Scotland) Accounts Advisory Committee's publication 'Holding to Account, Using Local Authority Financial Statements.'

¹ The Local Authority Accounts (Scotland) Regulations 2014

Appendix 1

Questions for elected members to consider as part of the accounts scrutiny and approval process

Stewardship of the council's funds	Your answer
1. Does the auditor's report included in the accounts give you independent assurance on how the financial position of the council has been reported?	
2. Does the council's governance statement provide you with assurance that the internal controls and governance arrangements are operating effectively? Does it adequately disclose any risk areas that you are aware of?	
3. Does the annual audit report provide you with assurance that: <ul style="list-style-type: none">• financial management of the council is effective?• financial sustainability of the council is demonstrated?• the council reports on its financial and service performance in a transparent way?• the council demonstrates Best Value in how its funds are used?• management have responded appropriately to any audit recommendations?	
Sustainability of services	
4. Does the management commentary in the accounts clearly explain to you the financial position of the council?	
5. Do you understand how the figures in the comprehensive income and expenditure statement link to the budgetary outturn information that you have considered for this year?	

6. Do you understand how the council's reserves, shown in the movement in reserves statement (MIRS), will be used in the future?	
7. The value of fixed assets is shown in the balance sheet. Do you understand how these assets are managed to secure the delivery of services in the future?	
8. Are you satisfied that the council's commitments for funding the capital programme, shown as liabilities in the balance sheet, are affordable into the future?	
9. If the council has significant borrowings have you received assurances that the council can afford the interest and is keeping up with the repayment of capital?	
10. Do you understand what any provisions included in the balance sheet are for? Is there risk that further significant liabilities could arise in the future?	
11. If there is a significant movement in the pension liability, do you understand what has caused the change, and the implications for the council?	
12. Do you understand the reason for any large movements in this year's figures compared with those shown for last year? Are those movements in line with strategic decisions to shift resources?	
13. Do you have suggestions for the s95 officer on how information in the accounts could be presented in a different or more understandable way?	
14. After considering the accounts and the budget outturns you have seen how the council is funding current services. Are you satisfied that adequate plans have been made to realise efficiencies or deliver services in a different way with reduced budgets in the future?	