

**To:** Audit, Scrutiny and Petitions Board

**On:** 13 February 2017

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**Report by:** Director of Finance and Resources

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**Heading:** Audit Scotland Annual Audit Plan 2016/17

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**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 2016/17 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 2016 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.
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**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

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## List of Background Papers

- (a) None
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**Author:** Alastair MacArthur Ext 7363

# Renfrewshire Council

Annual Audit Plan 2016/17

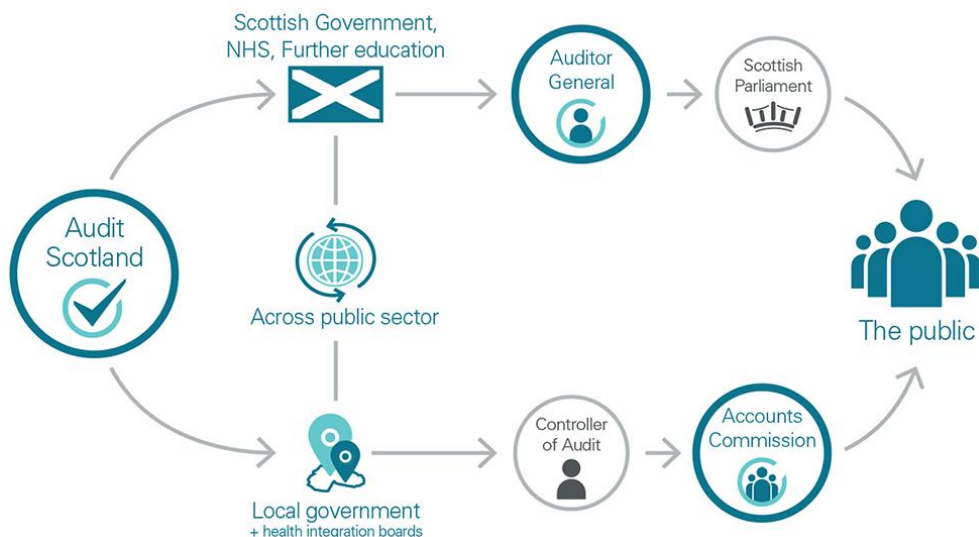


Prepared for Members of Renfrewshire Council  
February 2017

# Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Contents

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<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Reporting arrangements	6
Audit fee	7
Responsibilities	7
 <b>Audit scope and timing</b>	 <b>8</b>
Financial statements	8
Internal audit	10
Audit dimensions	10
Best Value	11
Independence and objectivity	12
Quality control	13

# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. 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 key audit risks, which require specific audit testing, are detailed in Exhibit .

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<b>1 Risk of management override of controls</b> ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<b>2 Risk of fraud over income and expenditure</b> ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice Renfrewshire Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.	The council has well developed processes for the authorisation, separation of duties and workflow associated with income and expenditure. Clear schemes of delegation and authorised signatory databases are regularly updated. Financial systems have authorisation process in-built to ensure the risk of fraud is minimised. The audit plan which internal audit complete will include a	Analytical procedures on income and expenditure streams. Detailed testing of revenue and expenditure transactions focusing on the areas of greatest risk.

Audit Risk	Management assurance	Planned audit work
<p>Particular areas of concern include council tax, non domestic rates and income from sundry debtors. The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by the council in delivering services.</p>	<p>range of systems testing across income and expenditure processes, with recommendations being monitored for implementation.</p> <p>The council has established a Counter Fraud Team who have been actively raising awareness of both financial and non-financial fraud risks through a series of training events targeted at key personnel.</p>	
<p><b>3 Capacity of finance function</b></p> <p>The council has made significant changes to its finance function. There is now a separate financial accounting and management accounting function. The finance support function has also been centralised under the Head of Finance with business partners embedded throughout all services. There is a risk that the restructuring of the finance function may affect the capacity of the council to prepare timely, accurate and Code compliant annual accounts. The 2016/17 Code requires significant changes to the format of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement.</p>	<p>The finance team operate to a clearly understood year end timetable and procedures, which include responsibilities for particular aspects of the annual accounts completion. Throughout the year finance staff attend CIPFA FAN events to ensure a clear understanding of any changes to the Code, in addition to examining the updated Code, practitioner guidance notes and Audit Scotland technical bulletins.</p>	<p>Ongoing planning with officers to ensure that the annual accounts are prepared and audited in sufficient time to allow the accounts to be approved in September.</p> <p>Review of compliance with accounting standards as part of financial statements audit.</p>
<b>Wider dimension risks</b>		
<p><b>4 Financial planning</b></p> <p>The council has identified a need to make savings of £20 million to £30 million in 2017/18 and further recurring annual revenue savings of £16 million to £27 million per annum for the two year period 2018/19 and 2019/20. A significant programme of work is underway to develop options as part of its Better Council Change Programme. Making these additional savings will be challenging given the significant service reforms and workforce reductions implemented to date. There is also a risk the level of planned budget savings will adversely affect the level and quality of service provision.</p>	<p>The Council has undertaken a programme of significant change in recent years to address the financial constraints faced by local government. These challenges will continue over the medium term, with a further phase of the Better Council Change Programme currently being developed in order to continue to try and deliver council services within the available resources. The Council has recently agreed a range of financial planning principles as part of a medium term financial plan which will support the delivery of further savings.</p>	<p>Review of the council's arrangements for financial planning as part of our Best Value audit work.</p> <p>Review of the council's progress in achieving its planned savings.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>5 Capacity of internal audit service</b></p> <p>The internal audit plan is currently 4% behind target. This is mainly due to an unexpectedly high number of investigations and the work to support the design of the council's new Enterprise Resource Planning (ERP) system. There is a risk the capacity of the internal audit section is not sufficient to provide the assurances required by the Chief Executive.</p>	<p>Completion of the internal audit plan is monitored on a monthly basis. Additional resources have been identified to close the current shortfall to ensure the audit plan completion target is achieved prior to the presentation of the Chief Auditor's annual opinion which informs the Annual Governance Statement.</p>	<p>Assessment of the internal audit service.</p> <p>Monitoring progress of the internal audit plan, focusing on areas where we plan to place reliance.</p>
<p><b>6 Effectiveness of Audit, Scrutiny and Petitions Board</b></p> <p>The Audit, Scrutiny and Petitions Board act as the council's Audit Committee. The Board has oversight of:</p> <ul style="list-style-type: none"> <li>• audit</li> <li>• corporate governance</li> <li>• risk management</li> <li>• monitoring and reviewing service delivery performance, policies and practices</li> <li>• community leadership</li> <li>• standards and ethics</li> <li>• written intimations</li> <li>• petitions.</li> </ul> <p>The focus of the Board is substantially on petitions. There is a risk that the council's current governance arrangements for audit and scrutiny do not allow members to adequately focus on audit, corporate governance and risk management.</p>	<p>The council will review existing governance arrangements following the local elections in May 2017.</p>	<p>Review of the council's leadership, governance and scrutiny as part of our Best Value audit work.</p>

## Reporting arrangements

**3.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**4.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**5.** We will provide an independent auditor's report to Renfrewshire Council and Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.



## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee (or equivalent) Date
Interim Audit Report	June 2017	TBC
Best Value Assurance Report	June 2017	TBC
Annual Audit Report including ISA 260 requirements	September 2017	TBC
Signed Independent Auditor's Report	September 2017	N/A

### Audit fee

**6.** The proposed audit fee for the 2016/17 audit of Renfrewshire Council is £338,960. The proposed audit fee for the audit of the charitable trust and common good accounts administered by Renfrewshire Council are £1,000 and £4,550 respectively. 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. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

**7.** 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.

### Responsibilities

#### Audit, Scrutiny and Petitions Board and Accountable Officer

**8.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**9.** The audit of the financial statements does not relieve management or the Audit, Scrutiny and Petitions Board, as those charged with governance, of their responsibilities.

#### Appointed auditor

**10.** Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Renfrewshire Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Renfrewshire Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**13.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of the affairs of the council and its group as at 31 March 2017 and of the income and expenditure of the council and its group for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code
- whether they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Renfrewshire Council are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the 2015/16 audited accounts.	£6.206 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£3.103 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been set at the maximum value permitted.	£0.100 million



**15.** We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issues identified will be reported to the Audit, Scrutiny and Petitions Board.

### Timetable

**16.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit, Scrutiny and Petition Board dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	June 2017 (TBC)
Latest submission date of unaudited [body's] financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Director of Finance and Resources	Early September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 September 2017
Independent auditor's report signed	By 30 September 2017
Latest date for signing of WGA return	30 September 2017

## Internal audit

**17.** 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 assessment of the internal audit function. Internal audit is provided by the internal audit service of the council.

### Adequacy of Internal Audit

**18.** We carry out an annual 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. We will report the results of this review in our interim management letter.

### Areas of reliance

**19.** In respect of our wider dimension audit responsibilities we plan to consider internal audit work including:

- Review of Corporate Governance Framework.

## Audit dimensions

**20.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5

#### Audit dimensions



**21.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on Best Value.

### Financial sustainability

**22.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address the identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**23.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**24.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on decision making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

**25.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the council can provide evidence that it is demonstrating value for money in the use of its resources
- the council can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the council can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

### Best Value

**26.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

**27.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council, which will provide a rounded picture of the council overall
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

**28.** The six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 6](#) below. Renfrewshire Council is one of those to be covered in this first tranche. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

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## Exhibit 6

### 2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

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**29.** We plan to publish the BVAR for Renfrewshire Council in June 2017. To inform this report we will review all aspects of Best Value at the council. This includes

- performance and outcomes
- improvement
- leadership, governance and scrutiny
- equal opportunities
- partnership and community empowerment
- financial planning
- financial governance and resource management.

## Independence and objectivity

**30.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 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.

**31.** The engagement lead for the audit of Renfrewshire Council is David McConnell, Assistant 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 Renfrewshire Council.

## Quality control

**32.** 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.

**33.** 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 Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**34.** 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.

# Renfrewshire Council

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)