

SCOTLAND EXCEL

To: Scotland Excel Joint Committee

On: 12 June 2015

Report by: The Treasurer

Heading: Annual Audit Plan 2014-15

1. Summary

- 1.1 The Annual Audit Plan 2014-15 for the Joint Committee is submitted for Members' information. The Plan outlines Audit Scotland's planned activities in their audit of the 2014-15 financial year.
- 1.2 The Annual Audit Plan 2014-15 includes a section on Audit Issues and Risks. Within this section Audit Scotland have identified a risk of "Management override of controls". This risk is being included in the audit plans of all bodies which Audit Scotland are working with in light of updated international standards on auditing. The inclusion of this risk is not a reflection of increased risk within Scotland Excel. Audit Scotland have confirmed that they have not found any issues on this in previous years.

2 Recommendations

- 2.1 The Joint Committee is asked to note the Annual Audit Plan 2014-15 by Audit Scotland.
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Scotland Excel Annual Audit Plan 2014/15

Prepared for Scotland Excel Joint Committee

March 2015



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.

Contents

Summary	2
Introduction	2
Summary of planned audit activity	2
Responsibilities	3
Responsibility of the appointed auditor	3
Responsibility for the preparation of the accounts	3
Format of the accounts	3
Audit Approach	4
Our approach	4
Materiality	5
Reporting arrangements	5
Quality control	7
Independence and objectivity	7
Audit issues and risks	8
Audit issues and risks	8
Summary assurance plan	10
Fees and resources	10
Audit fee	10
Audit team	11
Appendix I: Planned audit outputs	12
Appendix II: Significant audit risks	13

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Scotland Excel Joint Committee's (Scotland Excel) financial statements.
2. This report summarises the key challenges and risks facing Scotland Excel and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing Scotland Excel
 - 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.
- they give a true and fair view of the state of affairs of Scotland Excel 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 2015 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- a review and assessment of Scotland Excel's governance and performance arrangements and financial position
- providing an annual audit report addressed to Scotland Excel and the Controller of Audit.

Summary of planned audit activity

3. Our planned work in 2014/15 includes:
 - an audit of the financial statements and provision of an opinion on whether:

Responsibilities

4. The audit of the financial statements does not relieve management or Scotland Excel, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. 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.
6. 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 for the preparation of the accounts

7. It is the responsibility of the Treasurer, 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 Scotland Excel as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Scotland Excel. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
- understanding the business of Scotland Excel 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 Scotland Excel 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.

10. 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 2014/5 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.

11. 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 Renfrewshire 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.

12. As Scotland Excel uses financial ledger and systems hosted by Renfrewshire Council 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:
- Payroll
 - Treasury Management
13. 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 on Scotland Excel including:
- Contract Monitoring Arrangements.

Materiality

14. 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.

15. Based on our knowledge and understanding of Scotland Excel we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £33,000.
16. 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.

17. For 2014/15 performance materiality has been set at £16,000. We will report, to those charged with governance, all misstatements greater than £1,000.

18. 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

19. 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. Under section 106 of the Local Government (Scotland) Act 1973 joint boards and joint committees are classed as local authorities.

20. Scotland Excel is required to consider the unaudited annual accounts at a meeting by 31 August.
21. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.
22. 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.
23. Due to the timetable of committee meetings for 2015 the approval of the accounts will be delegated to the Executive sub-committee.
24. Scotland Excel is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. 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 committee dates:

Exhibit 1: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	26 February 2015
Planned Scotland Excel approval of unaudited financial statements	12 June 2015
Submission of unaudited financial statements with working papers package	22 June 2015
Progress meetings with lead officers on emerging issues	As and when required.
Latest date for final clearance meeting with Treasurer	6 August 2015
Agreement of unsigned financial statements for Executive sub-committee agenda, and issue of combined ISA 260 report to those charged with governance and draft Annual Audit Report.	12 August 2015
Executive sub-committee meeting	28 August 2015
Independent auditor's report signed	31 August 2015
Issue of final annual audit report	31 August 2015

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 relevant officers to confirm factual

accuracy. A copy of all final agreed reports will be sent to the Director, Treasurer, internal audit and Audit Scotland's Performance Audit and Best Value Group.

27. We will provide an independent auditor's report to Scotland Excel 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 Scotland Excel 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, Anne McGregor.

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 Scotland Excel.

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 your organisation.

Financial statements

35. **Approval of the accounts:** Due to the timetable of committee meetings for 2015 the approval of the accounts will be delegated to the Executive sub-committee, however this will require an amendment to the scheme of delegation, which will require Scotland Excel Joint Committee approval.

36. **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. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus an audit risk. We have not identified any audit issues on this in the past but each year have to address the

risk. We will design and perform audit procedures to address these risks at Scotland Excel.

37. Annual Governance Statement: Regulation 5 of the 2014 regulations requires authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. In previous years Scotland Excel has prepared a statement on the system of internal financial control (SSIFC), as allowed under the Code. Governance statements include a number of additional disclosures in comparison to the SSIFC.

38. Management Commentary: The 2014 LA regulations also require from 2014/15 for the annual accounts to include a management commentary. The Code requires local authorities to publish an explanatory foreword and only encourages (but does not require) authorities to take into account the relevant provisions of the *Government financial reporting manual* (FReM) in respect of management commentaries. However separate guidance from the Scottish Government is currently being drafted which will align to the reporting requirements in the FReM.

39. Staff costs: In 2014/15 Scotland Excel's staff costs will cover exit packages, permanent and temporary staff costs. In previous years we have noted Scotland Excel has found it difficult to recruit permanent procurement and IT professionals

and been employing temporary / fixed term staff. In 2014/15 a small number of exit packages were approved.

40. The Code and the LG 2014 regulations require specific disclosures for exit packages for the remuneration report and agreements should be in place for all exit packages and temporary contracts.

Financial position

41. In previous years we have noted that the funds available for procurement improvement activity were being gradually utilised and new models were needed to resource this type of work.

42. In 2014, Audit Scotland published its report on how well councils in Scotland manage procurement and Scotland Excel played a key part in the study. The report acknowledges that since 2006, Scottish Government and Scotland Excel initiatives have led to significant changes in councils' procurement practices, improved services and brought financial savings. The procurement capability assessments were assessed as being an effective process and councils considered them worthwhile.

43. The report made three recommendations for Scotland Excel:

- set realistic timescales for contracts development, particularly in new areas of contracting

Fees and resources

- maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust and with associated joint venture companies
 - work with councils and review and formalise arrangements to fund procurement improvement activity beyond 2016.
44. Managing the on-going need to recruit and retain procurement professionals is key in delivering Scotland Excel's objectives. The Director is considering the options for funding reform activities in the next three year business plan 2015-2018. We will follow-up progress on the above actions and provide an update in the annual report on the audit.

Summary assurance plan

45. In most cases, actions to manage the above risks are either planned or already underway within the organisation. 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.

Audit fee

46. 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.
47. In determining the audit fee we have taken account of the risk exposure of Scotland Excel, 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 15 June 2015.
48. The agreed audit fee for the 2014/15 audit of Scotland Excel is £5,720. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation'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.

49. 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

50. Anne McGregor, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Andrew Kerr 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.

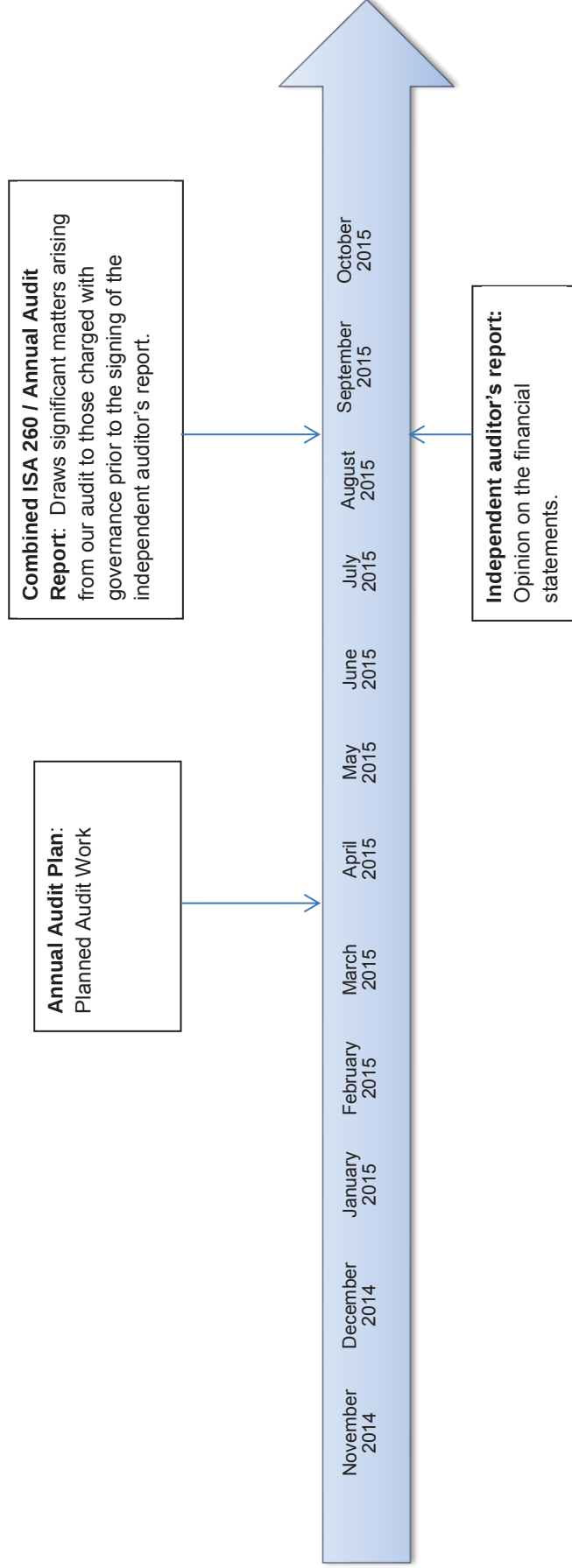
Exhibit 2: Audit team

Name	Experience
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

Name	Experience
	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.
Andrew Kerr, Trainee Auditor	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.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Scotland Excel 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.”

In this section we identify a range of risks facing Scotland Excel, 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 Scotland Excel 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			
Approval of the accounts Due to the timetable of committee meetings for 2015 the approval of the accounts will be delegated to the Executive sub-committee, however this will require an amendment to the scheme of delegation that still requires Joint Committee approval.	Scotland Excel Joint Committee meet in June to delegate to the Executive sub-committee the ability to approve the 2014/15 audited accounts prior to them being signed.		- Review revised scheme of delegation to ensure Executive sub-committee can approve the 2014/15 accounts. - Continue to work with officers to deliver the audit to the revised timetable.

Audit Risk	Source of assurance	Assurance procedure
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.
Annual Governance Statement The LG 2014 regulations require the annual accounts to include a governance statement, when in the past Scotland Excel would prepare a statement on the system of internal financial control (SSIFC). The governance statement contains a number of additional disclosures compared to the SSIFC and there is a risk not all the required disclosures are made.	- Finance staff attend annual technical accounting updates to understand changes to the Code and other new developments. - Meeting held with Renfrewshire Council finance and internal audit to agree on work required to prepare annual governance statement.	- Review of disclosures in annual governance statement against the <i>Delivering good governance in local government</i> framework. - Ensure disclosures are consistent with the information within the financial statements and internal audit reports.

Audit Risk	Source of assurance	Assurance procedure
Management Commentary The LG 2014 regulations require the annual accounts to include a management commentary, which will include a number of additional disclosures in comparison to the current explanatory foreword. The Scottish Government is providing guidelines on preparing the management commentary but these have not yet been issued.	- Finance staff attend annual technical accounting updates to understand changes to the Code and other new developments. - To share good practice, finance staff liaise with other local authorities in finance forums to discuss new accounting and disclosure requirements.	Ensure information in management commentary is consistent with that contained in the financial statement and complies with disclosure requirements.
Staff costs and changes 2014/15 Scotland Excel's staff costs will cover exit packages, permanent and temporary staff costs. The Code and the LG 2014 regulations require specific disclosures for exit packages for the remuneration report and signed agreements should be in place for all exit packages and temporary contracts. There is a risk the different costs are not disclosed correctly or not supported by formal and signed agreements.	- Finance staff will review all agreed packages to ensure they are accounted for in the correct reporting period and in line with the Code and other related guidance. - Payments to temporary staff are supported by signed contracts.	- Review of remuneration report to ensure that exit packages disclosures are complete, accurate and follow guidance. - Review accounts to check that all cost to the council are included e.g. amounts paid to individuals and strain-on-the-fund costs - We will undertake substantive testing on temporary staff in order to ensure that they are being paid the correct remuneration according to contracts / invoices. - Review final breakdown of permanent versus temporary costs in the financial statements for large and unusual movements.

Audit Risk	Source of assurance	Assurance procedure
Audit risk from wider responsibilities under Audit Scotland's Code of Audit Practice		
Financial position In previous years we have noted that the funds available for procurement improvement activity were being gradually utilised and new models were needed to resource this type of work. In 2014, Audit Scotland published its report on how well councils in Scotland manage procurement. This reiterated the need to for Scotland Excel to work with councils to review and formalise arrangements to fund procurement improvement activity beyond 2016. There has been a change in Director following the report being published and a risk of delay in addressing the recommendations.	The Director is considering the action points as part of preparing the next three year business plan 2015-2018, which is due in June 2015	We will follow-up progress on the recommendations for Scotland Excel from Audit Scotland's report and provide an update in the annual report on the audit.

Audit Risk	Source of assurance	Assurance procedure
Staffing Vacancies There have been a number of staff changes in 2014/15. A new Director joined Scotland Excel and a small number of exit packages were approved for 2014/15. As In previous years Scotland Excel has had difficulties in recruiting permanent staff members for a number of vacancies and relied on temporary staff. There is a risk changes will further impact on the staffing pressures currently faced and delay contract development.	• A recruitment campaign for six permanent and two fixed term posts will be undertaken in 2015 and the costs of these posts are included in the 2015/16 approved budget • When the current recruitment campaign is complete the temporary employment arrangements with agency staff will be phased out. There may be some temporary employment specialist support in new and emerging contract development areas.	• Monitoring of revenue budget monitoring reports for employee cost spend against budget. • Review business plans for work planned on contract development. • Report on position in final report on the audit.