

Scotland Excel

To: Joint Committee

On: 17th June 2016

**Report
by
The Treasurer, Scotland Excel**

Annual Audit Plan 2015-16

1. Summary

- 1.1 The Annual Audit Plan 2015-16 for the Joint Committee is submitted for Members' information. The Plan outlines Audit Scotland's planned activities in their audit of the 2015-16 financial year.
- 1.2 The Annual Audit Plan 2015-16 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 2015-16 by Audit Scotland.



Scotland Excel

Annual Audit Plan
2015/16

Prepared for Scotland Excel Joint Committee

June 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 Anne McGregor as the external auditor of Scotland Excel Joint Committee for the period 2011/12 to 2015/16.

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

This 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

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 2015/16. 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.

Summary of planned audit activity

3. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:

- they give a true and fair view of the state of affairs of Scotland Excel 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)
- a review and assessment of Scotland Excel's governance and performance arrangements and financial position.

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 of the Treasurer

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 2016 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
- 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. Planned management action being relied on for 2015/16 includes:

- comprehensive closedown procedures for Scotland Excel's 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.

11. 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).

12. 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. In respect of our wider governance and performance audit work we plan to review the findings of internal audit work on Review of contract monitoring arrangements.

Materiality

13. 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.

14. 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.

15. Based on our knowledge and understanding of Scotland Excel we have set our planning materiality at £32,000 (1% of gross budgeted expenditure).

16. 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.

17. For 2015/16 performance materiality has been set at £24,000. We will report, to those charged with governance, all misstatements identified which are greater than £1,000.

Reporting arrangements

18. 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.

19. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.

20. The 2014 regulations require Scotland Excel Joint Committee (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.

21. Due to the timetable of committee meetings for 2016 the approval of the accounts will be delegated to the Executive sub-committee.
22. 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.
23. 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)
Consideration of unaudited financial statements by those charged with governance	17 June
Latest submission date of unaudited financial statements with complete working papers package	27 June
Progress meetings with lead officers on emerging issues	As and when required during audit process
Latest date for final clearance meeting with Treasurer	31 August

Key stage	Date (All 2016)
Agreement of audited unsigned financial statements and issue of draft Annual Audit Report, which includes the ISA 260 report to those charged with governance	7 September
Executive Sub-Committee Date to approve accounts for signing	16 September
Independent auditor's report signed	19 September
Issue final annual report on the audit	19 September

24. 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 all 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.
25. 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. The combined ISA 260 and Annual Audit Report will be issued by 30 September.
26. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
27. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

28. 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).

29. 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

30. 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.

31. 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

32. 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 Scotland Excel. 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

33. **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.

Wider dimension issues and risks

34. **Financial sustainability:** In previous years we reported 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 for Scotland Excel to work with councils to review and formalise arrangements to fund procurement improvement activity beyond 2016.
35. In 2015 Scotland Excel published a new corporate strategy for 2015-18 and the business plans include an objective to review funding and business delivery models. The 2016/17 budget was approved by Scotland Excel Joint Committee at the budget meeting on 27 November 2015. This included a 9.4% increase to fund the improvement/reform activity
36. However longer term financial plans still require to be developed; and as the financial outlook continues to remain poor, there is a risk that longer-term support from member authorities reduces.
37. **Governance arrangements:** The Chief Officers' group is part of the governance arrangements for Scotland Excel. Its remit includes monitoring Scotland Excel's performance against its business plan and objectives but it has not convened since 23 March 2015; monitoring has been carried out by the Executive sub-committee. There is a risk there are unclear lines of accountability and lack of chief officer input into Scotland Excel.

The Director has been reviewing Scotland Excel's governance model as part of the Operating Plan 2015/16.

Fees and resources

National performance audit studies

38. 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.

Audit fee

39. 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%.
40. In determining the audit fee we have taken account of the risk exposure of Scotland Excel, 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 20 June 2016.
41. The proposed audit fee for the 2015/16 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 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.

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.

42. 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

43. 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

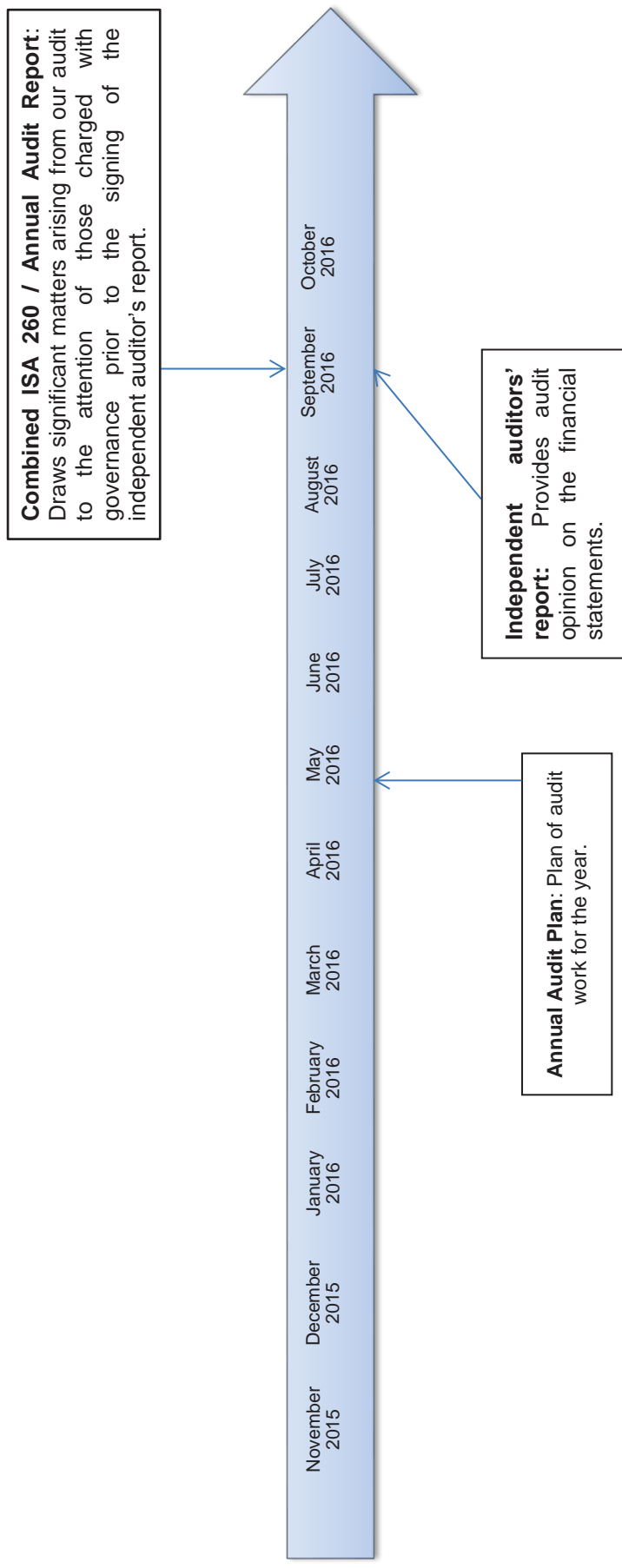
Exhibit 2: Audit team

Name	Experience
Anne McGregor, CA Senior Audit Manager (and certifying auditor)	Anne has over 16 years experience of public sector audit after working in the private sector for 8 years. Her public sector audit experience includes central and local government and she has been involved in a number of business improvement projects within Audit Scotland
Kenny McFall, CPFA Senior Auditor	Kenny has 14 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors.

Name	Experience
Andrew Kerr Professional Trainee	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 1: Planned audit outputs

The diagram below shows the key outputs planned for Scotland Excel in 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	<p>Management Override of Controls</p> <p>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.</p>	<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.
Wider dimension issues and risks			
2	<p>Financial sustainability : In previous years we reported that the funds available for procurement improvement activity were being gradually utilised and new models were needed to resource this type of work</p> <p>The 2016/17 budget has been approved and included a 9.4% increase to fund the improvement/reform activity. However, the longer-term financial models and planning</p>	<ul style="list-style-type: none"> Risk included in risk register and 2016/17 operating plan with actions to identify new opportunities to provide additional chargeable services based on customer demand and to develop and implement transparent budget management procedures. All councils have agreed to pay the 	<ul style="list-style-type: none"> Review final outturn position against budget and assess reserves position Enquire about, and consider arrangements for, financial planning for 2017/18 onwards and provide update in annual report on the audit.

#	Audit Risk	Source of assurance	Audit assurance procedure
	<p>still need to be developed and, as the tight financial climate continues, Scotland Excels risks not getting the long-term financial support from member authorities.</p>	<p>requisitions for 2016/17.</p> <ul style="list-style-type: none"> • Councils are provided with information showing how they can benefit, and have benefited, from using framework agreements put in place by Scotland Excel. • The Director regularly visits chief executives, directors of finance and senior procurement staff across councils to promote the work of Scotland Excel 	
3	<p>Governance arrangements:</p> <p>The Chief Officers' group is part of the governance arrangements for Scotland Excel but it has not convened since 23 March 2015; the monitoring role has been carried out by the Executive sub-committee. There is a risk there are unclear lines of accountability, and therefore a lack of proper oversight and chief officer input into Scotland Excel.</p>	<ul style="list-style-type: none"> • Proposed revisions to the Scotland Excel governance (including CEOMG) are on the agenda for approval at the joint committee on 17 June 2016. • SOLACE are considering a request for five chief executives to join the chief Executive of Renfrewshire Council (Chair) in a newly launched CEOMG. Three chief executives have expressed an interest. 	<ul style="list-style-type: none"> • Discuss plans with Director; assess and report update in annual report on the audit.

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>Financial planning</p> <p>The balance of ring-fenced reform funding is likely to be fully utilised in 2016 and there are no agreed plans in place to fund future reform work from 2016 onwards.</p> <p>Risk</p> <p>There is a risk Scotland Excel cannot fund its plans under its new corporate strategy 2015-18.</p> <p>Recommendation</p> <p>Options are prepared and recommendations made to members as part of the budget-setting process for 2016/17.</p>	<ul style="list-style-type: none"> The 2015-16 Operating plan includes commitment to develop and implement a transparent funding model based around core and chargeable services. 	<ul style="list-style-type: none"> The 2016/17 budget was approved by Scotland Excel Joint Committee at the budget meeting on 27 November 2015. This included a 9.4% increase to fund the improvement/reform activity.
2	<p>Register of interests</p> <p>The Audit Scotland April 2014 report on <i>Procurement in Councils</i> recommended that council staff involved in procurement should complete a register of interest</p>	<ul style="list-style-type: none"> A new template is now in place and will be completed by senior managers and contract owners by 2 October. The registers will be reviewed annually thereafter. 	<ul style="list-style-type: none"> A pro-forma register has been prepared and has been completed by all staff. A new Scotland Excel website will be launched by 30 June and content is under consideration.

#	Issue/Risk/Recommendation	Management Action/ Response	Current Position
	<p>statement and we consider this principle should apply to staff involved in negotiating contracts at Scotland Excel.</p> <p>Risk</p> <p>A register of interests can improve the transparency around the awarding of contracts and is an appropriate arrangement for prevention and detection of corruption.</p> <p>Recommendation</p> <p>A register of interests is put in place for all senior staff and all staff involved in negotiating contracts. This should be available on Scotland Excel's website once complete.</p>		<p>Scotland Excel will take advice from audit on what should be included.</p>
3	<p>Audit Scotland National Reports</p> <p>There is no formal process in place to review Audit Scotland national reports pertinent to Scotland Excel.</p> <p>Risk</p> <p>There is a risk that Scotland Excel misses out on lessons learned from other audits across local government.</p> <p>Recommendation</p>	<ul style="list-style-type: none"> As part of the procurement development role, reports will be reviewed bi-annually to identify key issues on commissioning or on specific councils. 	<ul style="list-style-type: none"> As part of the procurement development role, reports will be reviewed bi-annually by Head of Strategic Procurement to identify key issues on commissioning or on specific councils. The first report to be reviewed will be Audit Scotland's Local Government Overview report published in March 2016.

#	Issue/Risk/Recommendation	Management Action/ Response	Current Position
	Audit Scotland reports are reviewed by officers and summary information or lessons learned disseminated to members, as appropriate.		