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

**On:** 21 March 2022

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

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**Heading:** Audit Scotland Annual Audit Plan 2021/22

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**1. Summary**

- 1.1 Based on its analysis of the risks facing the Council, Audit Scotland has submitted an Audit Plan, as appended, that outlines its approach to the audit of the 2021/22 financial statements of the Council and the charities that the Council controls, in order to assess whether these statements provide a true and fair view of their respective financial positions, and also whether they have been prepared in accordance with proper accounting practice, i.e. the 2021 Code of Practice on Local Authority Accounting in the UK.
- 1.2 The Plan outlines the responsibilities of the Council and Audit Scotland; its assessment of key challenges and risks and the approach and timetable for completion of the 2021/22 audit.

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**2. Recommendations**

- 2.1 Members are asked to note the content of the attached report.
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## Implications of the Report

1. **Financial** – An unqualified audit opinion demonstrates that the Council has effective systems of internal control in place.
2. **HR & Organisational Development** – None arising from this report.
3. **Community Planning** – None arising from this report.
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 arising from this report.
6. **Information Technology** – None arising from this report.
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 arising from this report.
9. **Procurement** – None arising from this report.
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 arising from this report.
12. **COSLA Policy position** – None arising from this report.
13. **Climate Risk** – None arising from this report.

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# Renfrewshire Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Renfrewshire Council  
21 March 2022

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# Introduction

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## Summary of planned audit work

**1.** This document summarises the work plan for our 2021/22 external audit of Renfrewshire Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual accounts including the Management Commentary, the Remuneration Report and Annual Governance Statement
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review Renfrewshire Council's arrangements for preparing and publishing statutory performance information
- review Renfrewshire Council's participation in the National Fraud Initiative.

## Impact of Covid-19

**2.** The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

**3.** The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

**4.** We aim to add value to Renfrewshire Council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Renfrewshire Council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally,

we attend meetings of the Audit, Risk and Scrutiny Board and actively participate in discussions.

## **Respective responsibilities of the auditor and Renfrewshire Council**

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Renfrewshire Council. Key responsibilities are summarised below.

### **Auditor responsibilities**

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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.

### **Renfrewshire Council responsibilities**

8. Renfrewshire Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Renfrewshire Council has 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 deliver their objectives.

## **Managing the transition to 2022/23 audits**

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Renfrewshire Council are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for Renfrewshire Council

Materiality	Council/Group
<b>Planning materiality</b> – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.25 per cent of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£8.3 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 assessed performance materiality at 65% of planning materiality.	£5.4 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.250 million

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of Renfrewshire Council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at boards and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>



**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Renfrewshire Council because a significant element of the Council's income is from central government grant, council tax and non-domestic rates, all of which have predictable income patterns which limits the potential for manipulation. We therefore do not incorporate specific work into our audit plan in this area, over and above our standard audit procedures.

**16.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Renfrewshire Council as our assessment of the expenditure transaction streams has confirmed that many are low risk, for example, staff costs, depreciation, pensions IAS 19 charges and our standard audit procedures will involve focused testing on accruals in any higher risk areas.

**17.** Practice Note 10 also introduces the concept of external fraud risk and we have assessed the levels of fraud in the public sector per the National Fraud Initiative and this, as well as the analysis of expenditure, indicates that there is not a high risk of fraud across payment streams.

**18.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

## Other areas of audit focus

**19.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and these risks become significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly. The areas of specific audit focus are:

- **Valuation and measurement of Non-Current Assets:** At 31 March 2021, the Council held non-current assets with a value of £1,484.243 million. This included Land and Buildings with a net book value of £876.278 million. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations.
- **Measurement and judgements applied to the valuation of pension liabilities:** As at 31 March 2021, the Council recognised a net liability of £221.534 million relating to its share of the Strathclyde Pension Fund liability. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates.

## Group Consideration

**20.** As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**21.** Renfrewshire Council has a group which is comprised of subsidiaries, associates and joint ventures. The audits of the financial statements of some of the components are performed by other auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process.

## Audit of the trusts registered as Scottish charities

**22.** Members of Renfrewshire Council are sole trustees for one trust and three common good funds, registered as Scottish charities, with total net assets of some £40.550 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

**23.** The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

## Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

**24.** Materiality levels for the various trusts are set out in [Exhibit 3](#).

### Exhibit 3

#### 2021/22 Materiality levels for charitable trusts

Planning materiality has been assessed on 2% of net assets (based on the audited financial statements for 2020/21), whilst performance materiality has been calculated at 75% of Planning Materiality. The reporting threshold has been calculated at 5% of Planning materiality.

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
<b>Coats' Observatory Charitable Trust</b>	£15,405	£11,553	£770
<b>Common Good Funds</b>	£795,600	£596,700	£39,780

Source: Audit Scotland

**25.** Based on our discussions with staff and initial planning work, we have identified a significant financial statements risk of material misstatement due to

management override of controls for the trust and three common good funds. Our planned work around this risk is the same as the planned work for risk one in [Exhibit 1](#).

## **Audit risk assessment process**

**26.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

# Audit dimensions and Best Value

## Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

### Exhibit 4

#### Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

**Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

**Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

**Governance and transparency** – 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.

**Value for money** – value for money refers to using resources effectively and continually improving services.

## Best Value

**30.** 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is to be assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on specific issues. Conclusions and judgements on Best Value will be reported through:

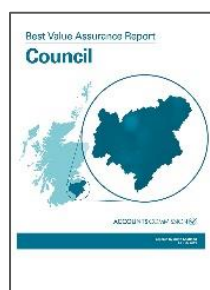
- the Annual Audit Report for each council that will provide a rounded picture of the council overall.
- an Annual Assurance and Risks Report that the Controller of Audit will provide to the Accounts Commission that will highlight issues from across all 32 council annual audit reports.
- a Best Value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

**31.** BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

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## Exhibit 5

### 2022 Best Value Assurance Reports



Comhairle nan Eilean Siar

Shetland Island Council

Angus Council

Moray follow-up

Source: Audit Scotland

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**32.** The Best Value work planned this year will focus on Renfrewshire Council's arrangements for community empowerment and equalities. Our findings will be reported through our Annual Audit Report.

## Audit dimension risks

**33.** We have identified audit risks in the areas set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

### Exhibit 6

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1.Financial Sustainability</b></p> <p>While the Council's financial stability remains secure in the short-term, the Council has reported an unaddressed structural budget deficit estimated to be between £4 - £5 million as it moves into the 2022/23 financial year.</p> <p>The Council forecasts that in the period to 2025, in gross terms, before any adjustment for council tax rises, a saving of approximately £25 million will be required to address the forecast structural budget deficit and therefore providing no capacity for reinvestment in service or capital investment priorities. Building in an indicative council tax rise each year of three per cent would reduce the saving requirement to approximately £17 million.</p>	<ul style="list-style-type: none"> <li>As part of the budget planning for 2022/23, the Council intends to take advantage of the financial flexibility arrangements approved by the Council in September 2020 to secure financial stability in the short-term and help address the forecast medium-term structural budget deficit.</li> <li>On 3 March 2022, the Council agreed a 3% rise in Council Tax in the 2022/23 budget, which addresses the immediate budget deficit.</li> <li>The medium to long-term financial outlook will be updated in line with current economic forecasts later in the year.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the Council's annual budget setting arrangements.</li> <li>Assessment of the council's medium to long term financial strategy.</li> <li>Review and assessment of budget monitoring arrangements with a focus on reports to senior officers and members on financial position.</li> <li>On-going review of the Council's financial position and delivery of planned savings.</li> </ul>

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**34.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), 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).

**35.** 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.

**36.** We will provide an independent auditor's report to Renfrewshire Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide Renfrewshire Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**37.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**38.** [Exhibit 7](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 7 2020/21 Audit outputs

Audit Output	Target date	Audit, Risk and Scrutiny Board date
Annual Audit Plan	14 March 2022	21 March 2022
Independent Auditor's Report	31 October 2022	TBC
Annual Audit Report	31 October 2022	TBC

Source: Audit Scotland

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## Audit fee

**39.** The agreed audit fee for the 2021/22 audit of Renfrewshire Council is £374,330 (2020/21: £367,010) and is inclusive of the fee for the audit of the Charitable Trusts. The fee included in this figure for the 2021/22 audit of the Charitable Trusts is £5,000 (2020/21: £5,000).

**40.** In determining the audit fee, we have taken account of the risk exposure of Renfrewshire Council and the planned management assurances in place.

**41.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or the absence of adequate supporting working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.



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# Other matters

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## Internal audit

**42.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of Internal Audit work undertaken during the year.

## Independence and objectivity

**43.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. 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 robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**44.** The engagement lead (i.e. appointed auditor) for Renfrewshire Council is John Cornett, Audit 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

**45.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

**46.** 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](#) (and supporting guidance) 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**47.** 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 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

**[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)**

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