

# Audit planning guidance

## Local government – 2014/15 audits



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Planning guidance – local government

## Key outputs and dates

Date	Activity	Contact	Ref
05/11/14	Submit initial fee claim (firms)	Owen Smith	GP 44
05/11/14	Submit audit partner & manager contact details & billing address changes for invoice purposes	Owen Smith	GP 9
31/12/14	NFI follow-up and questionnaire (1)	Owen Smith	58-60
07/01/15	Submit December progress report (firms)	Owen Smith	GP 69
07/02/15; 09/05/15; 05/09/15; 07/11/15	Accounts Commission current issues returns (tbc when FAAC meeting dates are finalised for 2015)	Gillian Woolman	49
31/03/15	Submit annual audit plan	Owen Smith	GP 10
07/04/15	Submit March progress report (firms)	Owen Smith	GP 69
29/05/15	All fraud reports (or nil returns) should have been submitted by this date	Anne Cairns	81-82
30/06/15	Receive unaudited accounts from local authority*		
30/06/15	NFI questionnaire (2)	Owen Smith	58- 60
06/07/15	Submit June progress report (firms)	Owen Smith	GP 69
13/07/15 (approx)	Complete analytical review database return	Tim Bridle	52-55
31/07/15	Certify safety camera programme grant claim	Tim Bridle	79-80
31/07/15	Certify Education Maintenance Allowance	Tim Bridle	79-80
30/09/15	Certification deadline: submit auditors report/ISA 260		11-12
30/09/15	Statutory performance indicators	Sharon Middlemass/ Douglas Black	41-43
30/09/15	Certify criminal justice social work services grant claim	Tim Bridle	79-80
03/10/15 (approx)	Certify WGA consolidation pack	Paul O'Brien and Tim Bridle	72-73

Date	Activity	Contact	Ref
05/10/15	Submit September progress report (firms)	Owen Smith	GP 69
31/10/15	Submit annual audit report to those charged with governance	Owen Smith	12
27/11/15	Submit all remaining outputs of the audit	Owen Smith	GP 12-17
27/11/15	Submit final fee claim (firms)	Owen Smith	GP 49-51
30/11/15	Certify Housing Benefit return	Anne Cairns	69-71
03/02/16	Certify Non Domestic Rates return (see below)	Tim Bridle	79-80

Notes:

- This summary captures all of the key audit activity and associated outputs in the year
- **All** audit outputs, including the above and any additional audit outputs identified in annual audit plans, should be emailed to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) (firms) or added to ishare(ASG)(except hard copies of signed accounts - see paragraph 13)
- **GP** refers to the General Audit Planning Guidance document
- **Contacts** are who to contact if you have any queries regarding the activity
- Items marked \*are key dates not audit outputs
- The deadline for the NDR return is under discussion and may be brought forward

## Introduction

1. This guidance is for local authority audits. It should be considered along with:
  - the general audit planning guidance that applies to all sectors
  - the SRA guidance (26): [SRA Guidance](#)
  - each council's Assurance and Improvement Plan (AIP) (26-27)

## Main points / changes from last year

- the remuneration rate used to calculate fees has been increased by 2% based on Audit Scotland's scale uplift
- the process for agreeing fees introduced for 2011/12 remains unchanged for 2014/15. Auditors should see the general audit planning guidance for further details
- certification and annual reporting deadlines are 30 September and 31 October respectively
- all audit outputs, including any additional audit outputs identified in local annual audit plans, should be emailed to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) (firms) or added to ishare (ASG)
- auditors are reminded of their responsibility to inform Audit Scotland promptly about any significant matters which may arise from the audit
- the Performance Audit & Best Value Group will continue to liaise directly with individual auditors about their involvement in Best Value (BV) audits and statutory report related work
- auditors continue to have a key role in Local Area Networks (LANs) and are expected to continue to make an active contribution to Shared Risk Assessments (SRAs)
- Performance Audit & Best Value Group will advise auditors in due course regarding performance audit work required in 2014/15 (paragraph 57)
- the Scottish Government has issued The Local Authority Accounts (Scotland) Regulations 2014 which replace the 1985 Regulations; unaudited accounts must be submitted to the external auditor but not to the Controller of Audit (see paragraph 9 below)
- following an Audit Scotland review of audit materiality we have set a cap for clearly trivial thresholds and now require materiality disclosures in the annual audit plan (see paragraphs 22-24)
- additional disclosures in the annual audit report, reflecting revisions to ISA 700, are being recommended (see paragraphs 20 - 21)
- two NFI questionnaires must be submitted during the year (see paragraphs 58-60)

## Code of Audit Practice and core audit requirements

2. The responsibilities of auditors described in the Code of Audit Practice apply to the local authority sector with the exception of the requirement to provide an opinion on the regularity of financial transactions. However, see paragraph 8 of the general planning guidance in connection with planning the audits of smaller joint boards and committees.

3. Under the Local Government in Scotland Act 2003, auditors have a duty to be satisfied that councils have made proper arrangements to secure BV and to comply with their Community Planning responsibilities. Audit Scotland’s expectation of auditors is covered by the approach to BV audits which is set out in more detail below.
4. The Accounts Commission may procure through Audit Scotland examinations or studies of the use of resources by local authorities and publish reports or guidance. Auditors may be requested from time to time to contribute to such studies. Where the auditor’s contribution is to be met from the provision included in the indicative fee range, auditors should not undertake a locally determined study if it would interfere with their ability to do work requested or directed by Audit Scotland.
5. The core audit can be defined as the work that Audit Scotland provided for when setting the indicative fee ranges for local authorities, i.e. the audit work required to:
  - provide the Independent Auditor’s Report on the financial statements of the local authority (including any assurance statements on whole of government accounts returns), local government pension scheme, and relevant registered charities
  - provide the annual report on the audit addressed to the body and the Controller of Audit
  - communicate audit plans to those charged with governance
  - provide reports to management, as appropriate, in respect of the auditor’s corporate governance responsibilities in the Code (including auditors’ involvement in NFI)
  - submit fraud returns, including nil returns, to Audit Scotland where appropriate
  - certify all grant claims submitted by the body that have been approved for certification by Audit Scotland
  - discharge the auditor’s responsibilities in connection with bodies’ publication of SPIs in accordance with the Accounts Commission’s annual Direction
  - identify significant matters arising from the audit, alert the Controller of Audit accordingly and support Audit Scotland in producing statutory reports as required
  - provide existing evidence and intelligence for, and participate in, SRA processes leading to the preparation of a 3 year rolling AIP for each council and a national scrutiny plan
  - report on the results of follow-up on councils’ progress in implementing existing BV improvement plans
  - contribute to BV audits and other scrutiny responses agreed through the SRA process
  - undertake other work requested by Audit Scotland (e.g. providing information and intelligence about council performance, supporting the impact of national performance audits and contributing evidence for the local authority overview report)
  - complete work detailed at **Appendix 1**.
6. Auditors should use the audit fees to resource the requirements set out in paragraph 5 and later in this note. To avoid volatility in audit charges, Audit Scotland’s central costs of the SRA process and BV audits are shared by all councils and recovered on a population basis through the Audit Scotland contribution. Where the overall demands (specifically the extent of audit

involvement in the scrutiny responses agreed through the SRA, including BV - see paragraphs 26-37) cannot be met from the indicative fee range, the issue should be discussed with Performance Audit & Best Value (PABV) Group at the earliest possible stage so that a decision can be made about whether an additional fee should be agreed with the council or met by PABV Group.

7. Similarly, other work commissioned from auditors beyond the core audit work may incur further audit fees. When commissioning such work Audit Scotland will indicate whether the fee is to be separately agreed with the audited body or to be invoiced to PABV Group, assuming that the work cannot be accommodated by varying the fee agreed with the body within the indicative fee range.

## Sector meetings

8. Audit Scotland hosts meetings throughout the year for all auditors involved in the local authority sector, and one annual all-sector audit planning conference. Auditors are expected to attend and contribute to these events.

## Certification and annual reporting

### Deadlines

9. The Local Authority Accounts (Scotland) Regulations 2014 have replaced the 1985 Regulations with effect from 2014/15. The statutory deadline for local authorities to submit their unaudited annual accounts for audit remains the 30 June. Under the 2014 regulations, the unaudited accounts no longer require to be submitted to the Controller of Audit in order to seek clearance to advertise the public inspection process. The proper officer must sign and date the statement of responsibilities and the balance sheets, certifying that the financial statements give a true and fair view before submitting them to the auditor. Local authorities must then publish the unaudited accounts on their web sites and give public notice of the inspection period.
10. 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. This new approval stage may impact on the audit completion timetable and auditors should plan accordingly. Auditors are encouraged to attend the relevant local authority or committee meeting, where possible, so that they can sign the accounts without delay.
11. The certifying deadline for auditors set by the Accounts Commission for local government 2014/15 audits is **30 September 2015**. This also applies to charitable trusts. For group accounts purposes, the respective auditors should liaise about the final audit timescales and agree an appropriate date for the certification of the accounts of subsidiaries, valuation joint boards etc.



12. Auditors should aim to submit the audited annual accounts and the annual audit report to members and the Controller of Audit at the same time. Where this is not possible, the deadline for submitting 2014/15 annual audit reports is **31 October 2015**. These should be provided electronically in PDF format to assist publication on Audit Scotland's web-site. No separate annual audit report is required for charitable trusts; the audited financial statements for charitable trusts must be submitted by the trustees to OSCR by **31 December 2015**.
13. Auditors should submit **one hard copy of signed audited accounts** to:
 

Owen Smith  
 Audit Scotland  
 110 George Street  
 Edinburgh EH2 4LH
14. The number of signed sets of audited annual accounts required by the audited body should be agreed locally. For other queries about audit certification and reporting the contact point is **Owen Smith** in Audit Strategy ([osmith@audit-scotland.gov.uk](mailto:osmith@audit-scotland.gov.uk)). **Appendix 2** provides further details of the end of audit arrangements.
15. The deadline for certifying the WGA return is expected to be **early October 2015**. Auditors will be advised on the precise date in due course.

## Local authority charity audit arrangements

16. The 2014/15 audit appointment of local authority auditors includes the audit of any OSCR-registered charities (Office of the Scottish Charity Regulator) for which the authority (or members of the authority) is the sole trustee. Auditors should agree the fees for the charity audits at the same time as agreeing the audit fee for the local authority and report them in the annual audit plan.
17. Local authority charities must prepare separate financial statements in compliance with The Charities Accounts (Scotland) Regulations 2006 and, where fully accrued accounts are required, the 2005 Charities SORP. Part 4 of The Local Authority Accounts (Scotland) Regulations 2014 modifies the extent to which the new regulations apply to charities so that only Regulations 9 and 11 apply. This effectively means the accounts must be open to public inspection as per the local authority accounts and must be signed accordingly.
18. In addition to the arrangements above, auditors may be approached by local authorities with a request to carry out audits for trust funds where the local authority is *not* the sole trustee i.e. the Local Government (Scotland) Act 1973 does not apply. OSCR requires the submission of an auditor's report with a charity's 2014/15 financial statements where it has gross income of £500,000 or above or gross assets of £3,260,000 or above.
19. Auditors appointed by the Accounts Commission are eligible under the Charities Regulations to audit a charity's financial statements and provide the required report. If approached by a local authority with a request to carry out the 2014/15 audit of trust funds that are registered charities, auditors are encouraged to do so and treat this as non-audit work.

## Audit Reporting: annual audit reports

20. ISA (UK and Ireland) 700 *The independent auditor's report on the financial statements* was revised in 2013 and has led to changes to auditor reporting requirements in the private sector. Currently, just two of our audited bodies (Scottish Water and Scottish Canals) must produce a more detailed independent auditor's report in compliance with paragraphs 19A and 19B of the ISA; this is because both bodies have voluntarily adopted the UK Corporate Governance Code (listed companies must apply this code).
21. Audit Scotland is keen to enhance auditor reporting in the public sector in the interests of transparency; enhanced reporting will improve stakeholder understanding of the audit and the issues considered by the auditors. Our annual audit reports are published on our web site: their public availability and content make them an ideal vehicle for the enhanced reporting required of listed companies per paragraphs 19A and 19B of ISA 700. We therefore expect that annual audit reports for 2014/15 will include the following information:
  - a description of those assessed risks of material misstatement that were identified by the auditor which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the audit team
  - an explanation of how the auditor applied the concept of materiality in planning and performing the audit, including specifying the materiality threshold for the financial statements as a whole
  - an overview of the scope of the audit, including an explanation of how it addressed the assessed risks of material misstatement and was influenced by the auditor's application of materiality
  - the audit findings from work on each risk of material misstatement or a statement that there is nothing to report.

## Audit Materiality

22. A recent Audit Scotland review of audit materiality found a wide variation in materiality percentages (for overall and performance materiality as well as clearly trivial thresholds) being applied, with many auditors using the maximum percentage permissible under their own guidance and/or applying the same percentage across all their audited bodies. These findings have raised concerns regarding the amount of work being carried out and the degree of judgement being applied on audit engagements.
23. Audit Scotland expects auditors to take into account the public interest factor inherent to the work carried out for the Auditor General and the Accounts Commission and apply judgement when determining overall materiality, performance materiality and clearly trivial thresholds, in compliance with ISA 320 *Materiality in planning and performing an audit*. Risk considerations specific to an audited body should be reflected in the performance materiality figure which should then be used to scope areas of the financial statements that will be subject to audit, determine sample sizes and evaluate variances arising from analytical procedures. The threshold for clearly trivial above which auditors should accumulate misstatements for

reporting and correction to audit committees is a matter for auditor judgement but must not exceed £250,000.

24. In the interests of transparency, auditors must report the materiality figures being used (overall and performance), and the clearly trivial thresholds for accumulating and reporting misstatements, in their audit plans. This information is important for audit committees in fulfilling their oversight responsibilities.

## Community Justice Authorities (CJAs)

25. Although CJAs are hosted by councils and comply with the Code of Practice on local authority accounting in the UK, they are central government bodies audited under the Public Finance and Accountability (Scotland) Act 2000. Central government certification and reporting deadlines therefore apply to CJAs (i.e. 31 October/30 November, respectively).

## Shared Risk Assessment and Joint Scrutiny Planning

26. Auditors are members of the Local Area Network (LAN) at each council as part of their ongoing audit responsibilities. These bring together the local scrutiny representatives with the common aim of agreeing a Shared Risk Assessment (SRA) for the council, identifying the appropriate proportionate scrutiny response, and planning that activity over a three year rolling programme. The output of the SRA process is an Assurance and Improvement Plan (AIP) which sets out the shared risk assessment of the council and the proposed scrutiny response.
27. All LAN members are expected to submit evidence to and attend LAN meetings, and contribute to the drafting of the AIP for the council. They should also participate in any on-going training of LAN members so that they are familiar with any developments that take place in the SRA process.
28. Should a requirement for scrutiny response work in 2014/15 be identified and the fee previously agreed locally is considered insufficient, the resourcing of this should be discussed with Performance Audit & Best Value Group. It is anticipated that much of the audit activity of this type will fall within existing responsibilities and that an increase in fees will not ordinarily be needed, e.g. exceptional contributions to BV audits or joint work with scrutiny bodies. In most cases it is expected that work of this nature will be reflected in future annual audit plans, which should be consistent with the AIP.
29. SRA guidance is issued annually which sets out the process that all scrutiny bodies should follow to reach a SRA and develop a proportionate scrutiny response for each council. The specific responsibilities of LAN representatives are also set out in more detail in the guidance. Auditors should follow this guidance when participating in the SRA process. A copy of this guidance is available on the [planning guidance page](#).
30. The contact for SRA work **Antony Clark**, Assistant Director, Performance Audit & Best Value Group ([aclark@audit-scotland.gov.uk](mailto:aclark@audit-scotland.gov.uk)) 0131 625 1857.

## Best Value Audit in Councils

31. BV audits are currently carried out by central teams within PABV working in partnership with local auditors. The timing, nature and extent of BV audit work is determined following a shared risk assessment for each council, undertaken in partnership with other scrutiny bodies. The Accounts Commission may also request a specific report from the Controller of Audit.
32. At the start of the planning process for each BV audit, local auditors are contacted by the BV team to discuss the arrangements, procedures and responsibilities, and to identify any particular support required.
33. Local auditors will be involved in the work in a number of ways, including making audit judgements and contributing to the BV audit report. Additional work may be required where the Commission decides to use its powers to instruct further audit work or to hold a hearing in response to a BV audit.
34. In some cases the BV audit work will be targeted work on a few subject areas rather than a 'full BV audit'. The scope of this work is again determined by the shared risk assessment process. Targeted work will either result in a statutory report or material for inclusion in the annual audit report to members and the Controller of Audit. In some cases, the Controller of Audit will issue his own report to supplement the annual audit report and submit this for consideration to the Accounts Commission. PABV will contact the appointed auditor at the scoping stage of the work to agree roles and responsibilities and to discuss the timeline and process.
35. Where there has been recent BV audit work, auditors should assess the council's progress in implementing its improvement plan and comment in their annual audit reports, or raise issues earlier with PABV if they have concerns about the council's progress.
36. Audit Scotland's Best Value toolkits (<http://www.audit-scotland.gov.uk/work/toolkits/>) may be used by auditors to inform audit work. The selection of the toolkit(s) should be based on an appropriate consideration of local circumstances and risks. These toolkits are subject to regular review to ensure that the material and contents remain accurate and effective.
37. The contact for Best Value Audit work is **Ronnie Nicol**, Assistant Director, Performance Audit & Best Value Group ([rnicol@audit-scotland.gov.uk](mailto:rnicol@audit-scotland.gov.uk)) 0131 625 1868.

## Community Planning Partnership Audits

38. The joint Scottish Government/COSLA Statement of Ambition for Community Planning sets out the key role that community planning and community planning partnerships (CPPs) should play in providing the foundation for effective partnership working, within which wider public service reform initiatives will happen. CPPs are a vehicle for delivering more integrated local public services, an increased focus on prevention and better outcomes for communities.
39. Appointed auditors will participate in CPP audit scoping work for any CPPs carried out in 2014/15, drawing on their existing knowledge of the council, health board and other public bodies, focusing in particular on their participation in and contribution to the local community

planning process. Any additional work required from appointed auditors to support individual CPP audits will be agreed on a case-by-case basis with PABV Group.

40. The contact for community planning partnership audits is **Antony Clark**, Assistant Director, Performance Audit & Best Value Group ([aclark@audit-scotland.gov.uk](mailto:aclark@audit-scotland.gov.uk) 0131 625 1857).

## Statutory Performance Indicators - Councils

41. The 2013 Accounts Commission Direction and guidance on auditing SPIs was issued in January 2014 and continues, for 2014/15, the approach introduced last year.
42. Auditors must assess the adequacy of arrangements in place in local authorities for collecting and publishing information in relation to SPI 1, 2 and 3. SPI 3 refers to the Local Government Benchmarking Framework. An audit pro-forma must be completed to reflect the audit work on SPIs and submitted to **Sharon Middlemass**, Business Support Specialist, ([SMiddlemass@audit-scotland.gov.uk](mailto:SMiddlemass@audit-scotland.gov.uk)) by 30 September 2015. The annual report for 2014/15 should include a summary of this appraisal, the respective duties and responsibilities of the council and the auditor under the Direction, any significant issues arising from the audit work and recommendations for improvement.
43. The contact point for SPIs in the Performance Audit & Best Value Group is **Douglas Black**, Project Manager, ([dblack@audit-scotland.gov.uk](mailto:dblack@audit-scotland.gov.uk); 0131 625 1856).

## Correspondence and statutory reports

44. Audit Scotland may from time to time request auditors to support preliminary enquiries and investigations into matters raised with Audit Scotland through correspondence or where significant matters arise which may lead the Controller of Audit or Auditor General to consider making a statutory report.
45. The arrangements for agreeing additional work and the process for related fee claims are set out in the general audit planning guidance.
46. Audit Scotland is currently reviewing the arrangements for correspondence handling and the accounts review process and is keen to engage with appointed auditors on this. Further guidance will be issued to appointed auditors as the new arrangements are developed.
47. The main contact is **Angela Canning**, Assistant Director, PABV ([acanning@audit-scotland.gov.uk](mailto:acanning@audit-scotland.gov.uk) 0131 625 1835). Other PABV contacts can be found here: [https://x18sp.extranet.audit-scotland.gov.uk/auditprocurement/planning/Guidance/PABV\\_Place\\_and\\_Portfolio\\_Responsibilities.pdf](https://x18sp.extranet.audit-scotland.gov.uk/auditprocurement/planning/Guidance/PABV_Place_and_Portfolio_Responsibilities.pdf) (for firms) or here: [http://ishare/PABV/PABVport/Gen\\_Port\\_Docs/PABV\\_Place\\_and\\_Portfolio\\_Responsibilities.docx](http://ishare/PABV/PABVport/Gen_Port_Docs/PABV_Place_and_Portfolio_Responsibilities.docx) (for ASG).

## Intelligence and impact

### Audit Intelligence

48. Audit Scotland's Corporate Plan 2012-15 reinforces our commitment to effective knowledge management. This is crucial for the monitoring of risk and to inform an audit response where appropriate. A revised set of audit risk and assurance reporting arrangements is being implemented this year. Auditors in local government are required to produce current issue returns based on the new risk categories below:
- AGS/Accounts Commission interest
  - Parliamentary/Elected Members interest
  - Ministerial interest
  - Financial management
  - Transparency
  - Financial sustainability
  - Value for money
49. Auditors should supply intelligence to Audit Scotland during the year on emerging issues and risks in audited bodies. Auditors are encouraged to contact Audit Scotland colleagues on an informal basis where issues are emerging. The key contact is **Gillian Woolman**, 0131 625 1981, [gwoolman@audit-scotland.gov.uk](mailto:gwoolman@audit-scotland.gov.uk). Links for PABV contacts are at paragraph 47. These contacts can offer advice to auditors and provide additional context from across the sector which can help with risk assessment and the consideration of any audit response. Auditors should submit current issue returns to **Gillian Woolman** per the key outputs table on pages 4-5 as a means of updating the Account Commission's Financial Audit and Assurance Committee. Firms should email them to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk). ASG should use the template on the LG ishare page.
50. Timely reporting of issues also allows Audit Scotland to have a good level of awareness across the public sector and to inform the Auditor General and the Controller of Audit of relevant issues. This assists with the production of overview reports.
51. In particular appointed auditors are encouraged to make early contact with Audit Scotland where there are issues in the audited body which may result in a statutory report. These issues may arise directly from the annual audit process or may be identified during on-going engagement with the audited body.

### Analytical Review Databases

52. The TSU co-ordinates the compilation of a database of financial information from the unaudited annual accounts of the 32 Scottish Councils. The database is for auditors to use for analytical review purposes, enabling inter authority comparisons of items of account, key ratios and year on year analytical review if the comparative data is populated (optional).



53. Auditors must complete the data capture workbook by early July; auditors will be advised of the precise date in due course. This is an audit output and as such should be provided to Audit Scotland in the usual manner to enable the compilation of the 2014/15 database.
54. The database will be available by mid-July, subject to the timely completion of workbooks. The workbooks can be completed from information in the unaudited accounts occasionally supplemented by working papers where it is not in the notes to the accounts. The completion process itself may help identify areas of Code non-compliance for further investigation.
55. The contact point for the Analytical Review Databases is **Tim Bridle** in TSU ([tbridle@audit-scotland.gov.uk](mailto:tbridle@audit-scotland.gov.uk), 0131 625 1793).

### Local impact of national performance audits

56. Audit Scotland's Corporate Plan 2012-15 reinforces our commitment to monitoring the impact of our work. The impact of national performance audits may be followed up in a number of ways, including through local impact returns completed by auditors or auditors undertaking more targeted follow-up work in councils. The contact in PABV for general questions relating to impact is **Mark Roberts**, Senior Manager, ([MRoberts@audit-scotland.gov.uk](mailto:MRoberts@audit-scotland.gov.uk) 0131 625 1613).
57. Information on the performance audit follow-up audit programme and the role of appointed auditors will be circulated once the performance audit programme has been agreed with the Auditor General and the Accounts Commission later in the year. Alongside the targeted follow-up work, PABV is developing a dataset of baseline information about finance departments, the control environment and financial constraints and pressures facing public bodies that it considers useful to capture consistently across all sectors. The dataset will be developed in consultation with Audit Strategy, Audit Services and the firms and circulated later in the year. The estimated auditor resource requirement is between 8 and 14 days.

### National Fraud Initiative (NFI)

58. Local authority bodies participating in the NFI 2014/15 exercise must submit data (as per the [latest instructions](#)) in October 2014. Matches for investigation will then be communicated to them at the start of 2015. Audit Strategy would expect bodies to investigate all recommended matches plus further matches based on findings and the risk of error or fraud. Match investigation work should be largely completed by 30 September 2015 and the results recorded on the NFI system. Some investigations may continue beyond this date.
59. Auditors should monitor their audited bodies' participation and progress during 2014/15 and into 2015/16 and include references to NFI in their annual reports for both years as part of their consideration of arrangements for the prevention and detection of fraud. This year Audit Strategy will issue auditors with an Auditor NFI Pack to assist them in monitoring audited bodies' engagement with the NFI exercise and run training.
60. Auditors must complete a first questionnaire by 31 December 2014 to follow up the council's progress in investigating council tax single person discount to electoral register matches

(based on the data uploaded in December 2013) and a second NFI audit questionnaire covering all 2014 match investigations during the period January to June 2015 by 30 June 2015. This will reflect the activity undertaken by audited bodies following receipt of matches for investigation. Both questionnaires should be sent to **Owen Smith**. More information is provided on this work at **Appendix 1**.

## Group Audits

61. Auditors of groups and service arrangements should consider using the annual Audit Scotland Transparency & Quality report to assist in documenting their assessment of significant component auditors' professional competence where the firm is one of the seven firms that carry out audit work for Audit Scotland. Paragraph 19 of ISA 600 (*Special Considerations - Audits of Group Financial Statements including the work of component auditors*) requires the group auditor to assess the component auditor's independence, competence and the regulatory environment in which they work. See also paragraph 63 below.

## Guidance on performing and reporting the audit of the annual accounts

### Local authority annual accounts

62. Audit Scotland will publish a note for guidance to provide auditors with guidance on planning and performing the audit of the 2014/15 local authority financial statements. The note will highlight the areas that represent generic risks of material misstatement in the financial statements, and will provide guidance on:
- the opinion on the part of the remuneration report that is audited
  - the opinion on the consistency of the management commentary with the financial statements (the 2014 regulations require a management commentary from 2014/15 rather than the more narrowly focussed explanatory foreword required by the accounting Code)
  - matters on which auditors are required to report by exception, e.g. the annual governance statement (the 2014 regulations require authorities to undertake an annual review of their system of internal control and report this in an annual governance statement; the option under the accounting Code to prepare a statement of internal financial control has been removed).
63. A significant change in 2014/15 arises from the adoption by the Code of the new group accounts standards. For example, as a result of the adoption of IFRS 10, the definition of control has been revised and now focuses on an authority's ability to use its power over the entity to affect the amount of the returns from its involvement with the entity. This means that decisions made under previous standards regarding the classification of entities, particularly leisure trusts (e.g. as associate rather than subsidiary), will need to be reviewed to confirm they remain appropriate.



## Local government pension scheme annual accounts

- 64. Local authorities responsible for administering a pension fund forming part of the local government pension scheme (LGPS) are required to publish a pension fund annual report, including the financial statements.
- 65. Audit Scotland will publish a separate note for guidance to provide auditors with guidance on planning and performing the audit of the 2014/15 local authority LGPS financial statements.

## Local authority charities accounts

- 66. Audit Scotland will publish a separate note for guidance on planning and performing the audit of the 2014/15 local authority registered charities.

## Model auditor's reports

- 67. A separate note for guidance containing model auditor's reports based on the requirements of ISA 700 but adapted for local authorities, the LGPS, and charities will be published in due course.

## Contact point

- 68. The contact point for the notes for guidance is **Paul O'Brien** in the TSU ([pobrien@audit-scotland.gov.uk](mailto:pobrien@audit-scotland.gov.uk), 0131 625 1795).

## Other technical issues for 2014/15

### Housing benefit

- 69. The Accounts Commission has responsibility for the inspection of housing benefit (HB) services in Scotland, and specialist benefits auditors within Audit Strategy carry out a programme of performance audit work. As part of this work, the benefits auditors will liaise with the appointed external auditor so that any local intelligence can be taken into account.
- 70. Auditors are required to certify the annual subsidy claim. Auditors should comply with the testing and reporting requirements set out in the grant note published by the TSU. Auditors are also expected to carry out annual interim audit work on HB. HBCOUNT will continue to be in place in for 2014/15 (and beyond) for certifying benefit subsidy claims.
- 71. The contact point for HB matters is **Anne Cairns** in the TSU ([acairns@audit-scotland.gov.uk](mailto:acairns@audit-scotland.gov.uk); 0131 625 1926).

### Whole of government accounts

- 72. The Code of Audit Practice requires appointed external auditors to review and report on whole of government accounts (WGA) returns prepared by audited bodies. External auditors of local authorities are required to certify 2014/15 WGA returns over a prescribed threshold.

73. Audit Scotland will publish a note for guidance to provide guidance on the auditor certification of the 2014/15 WGA returns of local authorities.

### Transport infrastructure assets

74. It is expected that the 2016/17 accounting Code will adopt the measurement requirements of the *Code of practice on transport infrastructure assets* (the transport code) for transport infrastructure assets, i.e. measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.
75. This will represent a change in accounting policy from 1 April 2016 and will require full retrospective restatement including a restated balance sheet at 1 April 2015. It is essential that finance staff, asset management practitioners and engineering professionals work together to develop and action a project plan as soon as possible in order to achieve successful implementation. A robust project plan should be built on authority-specific information provided through an impact assessment which is designed to identify gaps in current data, systems and processes. Failure by authorities to begin preparations in 2014/15 represents a risk to them having the necessary information in the required timescale.
76. Auditors should ensure their plans for 2014/15 include a consideration of their authority's state of preparedness, including an assessment of the development of a robust project plan.

### Health and social care integration

77. The Public Bodies (Joint Working)(Scotland) Act 2014 requires councils (and health board partners) to jointly prepare an integration scheme setting out the integration model to be adopted (i.e. lead agency or Integrated Joint Board). Integration schemes must be submitted to Scottish Ministers for approval by 1 April 2015 and integration arrangements must be in place by 1 April 2016. The Scottish Government envisages that some integration arrangements will be operational earlier than 1 April 2016.
78. For 2014/15, appointed auditors should engage with their audited bodies to monitor progress being made towards integration and include references in their annual audit reports. Specifically, auditors will want to know the date that any integrated joint boards will become operational, review financial plans and comment on progress towards establishing effective governance arrangements for the new partnerships.

### Grant claims and returns

79. The TSU maintains a list of approved grant claims/returns for the local authority sector which will help auditors and audited bodies identify the claims and other returns that are likely to be presented for certification by auditors. The TSU publishes grant notes (GNs) which give guidance on the certification of each claim and which are available from the Technical Reference Library on [ishare](#) and the [extranet](#). The approved claims/returns are listed in an Appendix to the general GN. The TSU should be consulted immediately if an authority requests the certification of a claim not included on this list. New claims are added only after agreement with the relevant paying department/agency.

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80. The contact points for grant claims and returns are **Anne Cairns** (HB subsidy claim) ([acairns@audit-scotland.gov.uk](mailto:acairns@audit-scotland.gov.uk); 0131 625 1926) and **Tim Bridle** (all other claims) ([tbridle@audit-scotland.gov.uk](mailto:tbridle@audit-scotland.gov.uk); 0131 625 1793) in the TSU.

## Fraud returns

81. Auditors are required to submit fraud returns to the TSU in accordance with notes provided on the Technical Reference Library and on the returns themselves. Frauds should be reported where they involve the misappropriation or theft of assets or cash and are facilitated by weakness in internal control. Auditors should have arrangements in place to be notified of all relevant frauds over £5,000 which occur in their local authorities, and should report them as soon as practicable after the fraud has been discovered by submitting a pro-forma return for each case. All completed reports (or confirmations of nil returns) must be submitted by 29 May 2015. Reports of frauds involving less than £5,000 are not required.
82. The contact point for fraud returns queries in the TSU is **Anne Cairns** ([acairns@audit-scotland.gov.uk](mailto:acairns@audit-scotland.gov.uk); 0131 625 1926). Completed fraud returns and nil returns should be emailed to her.

# Appendix 1: NFI 2014/15

NFI in Scotland	
Bodies to which this applies	Councils, SPT and Tayside Contracts.
Brief description of work and requirements of auditors	Monitor and report on bodies' participation in NFI in Scotland.
Lead person within Audit Scotland	<b>Owen Smith</b> in Audit Strategy ( <a href="mailto:osmith@audit-scotland.gov.uk">osmith@audit-scotland.gov.uk</a> ).
Nature of output(s) required from auditor	<p>For 2014/15:</p> <ul style="list-style-type: none"> <li>• Council auditors to complete a questionnaire (1) by 31/12/14 to follow up the council's progress in investigating council tax single person discount to electoral register matches (data uploaded in December 2013).</li> <li>• Auditors of all participating LG bodies to complete a questionnaire (2) by 30/06/15 to record the auditor's assessment of the audited body's NFI arrangements, participation, investigation and reporting of matches returned to it in January 2015.</li> <li>• Reference in 2014/15 and 2015/16 annual audit reports.</li> </ul>
Use to which output(s) will be put by Audit Scotland	Mainly for national report planned for June 2016; will also form the basis of a report on progress to the Accounts Commission. May also inform the need for visits to bodies by the central NFI team.
Is the output to be formally agreed with the client?	Factual accuracy of outputs to be agreed as normal.
Estimated auditor resource requirement and staff mix (or fee)	For 2014/15 up to 5 days depending on body and extent of NFI output. Preferably audit senior or above, overseen by Manager/Partner.
When will audit tools/further guidance be made available by Audit Scotland?	The two auditor questionnaires will be issued to staff in October 2014 and February 2015 and should form part of the audit documentation to support audit work on the arrangements for the prevention and detection of fraud at audited bodies. An auditor NFI pack and training will be available early in 2015 to support this work.

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## NFI in Scotland

Timetable for output(s):

**NFI Audit Questionnaires to be returned to Audit Strategy by 31 December 2014 and 30 June 2015.**

# Appendix 2: End of audit arrangements

Local Authority accounts are not laid before the Scottish Parliament. They must be submitted to the Controller of Audit for review and identification of any matters that need to be reported to the Accounts Commission under section 102 of the Local Government (Scotland) Act 1973. Auditors must therefore submit the audited accounts to Audit Strategy which acts on behalf of the Controller. Auditor submission requirements are set out in the table below:

	Audit Scotland (Audit Strategy)*	Local Authority	ASG	Firms
<b>Hard copy of signed accounts:</b> <ul style="list-style-type: none"> <li>Local Authority</li> <li>Pension Fund</li> <li>Charities</li> </ul>	1 for each*	To agree locally	1 for each unless further copies agreed locally	1 for each unless further copies agreed locally
<b>Electronic PDF version of accounts:</b> <ul style="list-style-type: none"> <li>Local Authority</li> <li>Pension Fund</li> <li>Charities</li> </ul>	1 for each	n/a	**	***
<b>ISA 260/other management reports</b> <ul style="list-style-type: none"> <li>Local Authority</li> <li>Pension Fund</li> <li>Charities</li> </ul>	1 for each	1 for each	**	***
<b>Annual Audit Report</b> (separate annual reports for pension funds/charities at discretion of auditor)	1 for each	1 for each	**	***

\* Hard copies of the accounts should be delivered to Owen Smith, 110 George Street, Edinburgh, EH2 4LH.

All audit outputs should be

\*\* added to ishare 'LG XXX- Financial Audit - Outputs' section (ASG)

\*\*\* emailed to [outputs@ishare.audit-scotland.gov.uk](mailto:outputs@ishare.audit-scotland.gov.uk) (Firms)