

# Comhairle nan Eilean Siar

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Comhairle nan Eilean Siar  
February 2017

## Who we are

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

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



## About us

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

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

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

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# Risks and planned work

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

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Comhairle nan Eilean Siar. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The Comhairle receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is</p>	<p>The Comhairle has well established procedures in place for the management of income and these are subject to regular review by Internal Audit.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walkthrough of controls over income transactions and significant grant income.</p> <p>Review of National Fraud Initiative arrangements and results.</p>

Audit Risk	Management assurance	Planned audit work
<p>an inherent risk of fraud.</p> <p>Particular areas of concern include council tax, non domestic rates and income from sundry debtors.</p>		
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The Comhairle incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>The Comhairle participates in the NFI Scheme and performance is reported to the Comhairle quarterly.</p> <p>Scottish Welfare Fund payments are countersigned by an authorised signatory to ensure independent oversight of decision making. Quality assurance of housing benefit and council tax reduction processing takes place throughout the year. The Comhairle participates in the National Fraud Benefit arrangements. The Comhairle has established procedures for the management of social care payments which are subject to review by internal audit.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Walkthrough of controls over social care payments.</p> <p>Assessing the overarching controls in grant schemes.</p> <p>Detailed testing of expenditure and housing benefit transactions.</p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>The Comhairle has appointed the Valuation Office Agency to undertake a professional valuation of all assets on a rolling five year programme. A specialist mineral valuer was appointed for the valuation of the landfill site.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of provisions focusing on the appropriateness of valuation.</p>
<p><b>5 Highways network asset (HNA)</b></p> <p>HNA are to be recognised for the first time in the 2017/18 financial statements of councils. While this is not a risk to the 2016/17 financial statements, this is a new and complex area and there is a risk that the Comhairle does not have sound arrangements in place to support adoption in 2017/18.</p>	<p>Comhairle Officers have participated in the SCOTS project since it started to ensure that the necessary data is available and validated.</p>	<p>Assess the arrangements in place to obtain the required knowledge and expertise to implement the new requirements.</p> <p>Review and assess the measurement, existence and completeness of HNA records to ensure compliance with the Code of practice on highway network assets.</p>
<p><b>6 Group accounting</b></p> <p>For 2016/17, the Comhairle will be required to consolidate the Western Isles Integration Joint Board into its group for the first time. The complexity of this consolidation leads to a risk over the accuracy and completeness of the group accounts.</p>	<p>The IJB/Cùram is Slàinte nan Eilean Siar was included in the 2015/16 Accounts. Plans are being prepared, in conjunction with Health Board colleagues, to ensure that the accounts of the respective partners are completed in the required</p>	<p>Review the group boundary assessment undertaken by the Comhairle.</p> <p>Detailed coverage during the financial statements audit in accordance with ISA 600.</p>

Audit Risk	Management assurance	Planned audit work
	timescale to enable the consolidated Accounts to be prepared.	
<p><b>7 Revised financial statement formats</b></p> <p>From 2016/17, the Code requires authorities to present their service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services. There is a risk that comparative 2015/16 data may not be presented correctly.</p>	Initial work on restating the 2015/16 Comprehensive Income and Expenditure Account has been completed. This will be reviewed with Audit Scotland in March 2017.	Review work done on mapping the audited 2015/16 CIES to audited prior year disclosures.
<p><b>8 Loans Fund Accounting</b></p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the Comhairle do not have arrangements in place to comply with the new accounting practices.</p>	Officers in the Treasury Management team have considered the new requirements and the Treasury Management Strategy for 2017/18 has been updated to reflect the new Legislation.	Review the arrangements in place to comply with the new loans fund accounting requirements.  Detailed audit testing of loans fund transactions within the financial statements.
<p><b>9 New NDR system</b></p> <p>A new IT system for Non Domestic Rates went live in January 2017. The system is provided by Capita and will also be used for council tax, housing benefits, council tax reduction and housing benefit overpayment recovery in 2017/18. There is a risk that the data migration to the new system is not carried out and tested accurately.</p>	A comprehensive process to ensure data matching, balancing and testing was put in place to provide assurance prior to the go live date. This was signed off by management and the system provider. This was subsequently reviewed post go live to ensure data matching was successful and work required to complete this process was undertaken and documented.	Review of planning and testing documentation produced and maintained by the Comhairle.  Testing of the data migrated to the new system for assurance over accuracy and completion.  Walkthrough and testing of the controls of the new system.  Substantive testing of the year end balances from the new system.
<p><b>10 Payroll validation</b></p> <p>Scott Moncrieff highlighted in their 2015/16 Annual Audit Report that overpayments made to individuals who had ceased employment with the Comhairle totalled £11,300. This had occurred due to leaver forms not being submitted to the payroll department on a timely basis following the employee leaving.</p> <p>Our initial systems testing has</p>	Regular reminders are issued to Directors, Heads of Service and Service Managers to ensure documentation is completed which would avoid overpayment. Heads of Service are required to sign off the budget estimates for post holders within their team to ensure data is checked at least once a year. It is	Detailed walkthrough and testing of existing payroll controls.  Detailed audit work on validation of payroll standing data to confirm existence.  Substantive testing on staff costs as part of financial statements audit.

Audit Risk	Management assurance	Planned audit work
<p>highlighted that there is no formal control in place to regularly validate payroll standing data. There remains a risk therefore that further overpayments could be made.</p>	<p>anticipated that an electronic process using HR/Payroll system will be implemented in 2017 which will reduce the risk of overpayment further.</p>	
<p><b>Wider dimension risks</b></p>		
<p><b>11 Financial planning</b></p> <p>In February 2016 the Comhairle agreed a forward Budget Strategy that sought to enable the Comhairle to deliver a balanced budget across the two year period 2016-18 using a combination of workforce planning, corporate efficiencies, budget choices and balances.</p> <p>An assessment of the long term financial outlook from 2018-28 shows savings required for the two year period 2018-20 are estimated at between £9.4m and £14.2m with a best estimate of £11.9m.</p> <p>Financial challenges are unlikely to reduce and there is a risk that budget gaps will not be addressed.</p>	<p>The Comhairle agreed its budget for 2017/18 on 7 February 2017. This includes a deficit of £2.5m to be funded from balances of £6.15m. This will leave the Comhairle with £3.6m of balances towards the projected deficit in future years.</p> <p>In recognition of the challenge ahead, the Strategy included plans to develop service choices, service transformation plans and workforce options, ready to be considered by the new Comhairle following its election in May 2017.</p>	<p>Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.</p> <p>Review of the council's progress in achieving its planned savings.</p>
<p><b>12 Financial Management</b></p> <p>The Comhairle approved a budget for 16/17 that included agreed savings of £6.2 million. At 30 September 2016, the forecast outturn was a net underspend of £0.338 million, arising mainly from Comhairle services delegated to the IJB.</p> <p>There is a risk that the Comhairle fail to make the required level of savings and that any under/over spend on IJB related services impact on the Comhairle's ability to achieve financial balance.</p>	<p>The Third Quarter Revenue Monitoring that will be considered by the Comhairle in March 2017 reports that the Comhairle expects to achieve its planned savings for 2016/17 and that the outturn for Cùram is Slàinte nan Eilean Siar will not place an additional burden on the Comhairle.</p>	<p>Review financial monitoring reports and the financial position.</p> <p>Undertake specific audit work on financial governance and resource management.</p> <p>Consider the findings from internal audit work on financial savings.</p>

## Reporting arrangements

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

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

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

6. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end i.e. 31 December. The Comhairle is required to submit their audited financial statements by 30 June to meet the consolidation timetable.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
Interim Management Report	26 May 2017	20 June 2017
Annual Audit Report including ISA 260 requirements	8 September 2017	25 September 2017
Signed Independent Auditor's Report	25 September 2017	25 September 2017

### Audit fee

7. The agreed audit fee for the 2016/17 audit of the Comhairle is £193,710. In determining the audit fee we have taken account of the risk exposure of the Comhairle, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 19 June 2017.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit and Scrutiny Committee and Chief Executive

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

10. The audit of the financial statements does not relieve management or the Audit and Scrutiny Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

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



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

# Audit scope and timing

## Financial statements

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

- understanding the business of the Comhairle and the associated risks which could impact on the financial statements
- obtaining assurances from the outgoing auditors for the opening balances in the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Comhairle will include these in the financial statements
- assessing the risks of material misstatement in the financial statements, and the impact of consolidation of the Integration Joint Board into the group accounts
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**14.** We will give an opinion on the financial statements as to whether they:

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

## Materiality

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



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 based on the latest audited accounts for 2015/16.	£1.472 million
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 25% of planning materiality.	£0.368 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality rounded to a memorable numeric.	£0.070 million



16. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Audit and Scrutiny Committee.

### Timetable

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

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	20 June 2017
Latest submission date of unaudited financial statements with complete working papers package	19 June 2017
Latest date for final clearance meeting with Director of Finance and Corporate Services	1 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	8 September 2017
Independent auditor's report signed	25 September 2017

### Internal audit

18. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the

work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by a mixed team of Comhairle staff overseen by a Chief Internal Auditor.

### **Adequacy of Internal Audit**

**19.** Our assessment of the internal audit function concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

### **Areas of reliance**

**20.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Trade payables
- Housing benefit and council tax reduction

**21.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Business planning, key task implementation and monitoring audit dimensions
- Resource transfer - IJB shared budgets
- Long term financial planning - strategy
- Performance management arrangements and savings
- Recruitment
- Work force planning
- Reporting concerns at work - whistleblowing policy

### **Audit dimensions**

**22.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#). Our conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

## Exhibit 5

### Audit dimensions



#### Financial sustainability

**23.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on the following in 2016/17:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

#### Financial management

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

- the arrangements in place to ensure systems of internal control are operating effectively
- whether the Comhairle can demonstrate the effectiveness of budgetary control in communicating accurate and timely financial performance
- how assurance has been obtained that the Comhairle's financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

#### Governance and transparency

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

- whether the Comhairle can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

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

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

### Strategic plan for the five year appointment

**27.** As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (which will be subject to annual review):

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## Exhibit 6

### Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning		Financial planning
Financial management	Financial governance and resource management		Financial governance and resource management
Governance and transparency	Governance - Follow up of Role of Boards	Community engagement/ empowerment	Digitalisation of services
Value for money		Delayed discharges Working with partners	Performance /Outcomes

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### Best Value

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

**29.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of

work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

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

**30.** The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 6](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

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## Exhibit 6

### 2016/17 Best Value Assurance Reports

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

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**31.** The work planned in the Comhairle this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

### Independence and objectivity

**32.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**33.** The engagement lead for Comhairle nan Eilean Siar is Brian Howarth, Assistant Director (Audit Services). Auditing and ethical standards require the appointed auditor, Audit Scotland, 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 the Comhairle.

### Quality control

**34.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**35.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**36.** 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.



# Comhairle nan Eilean Siar

## Annual Audit Plan 2016/17

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