

# West Dunbartonshire Council

Annual Audit Plan 2016/17



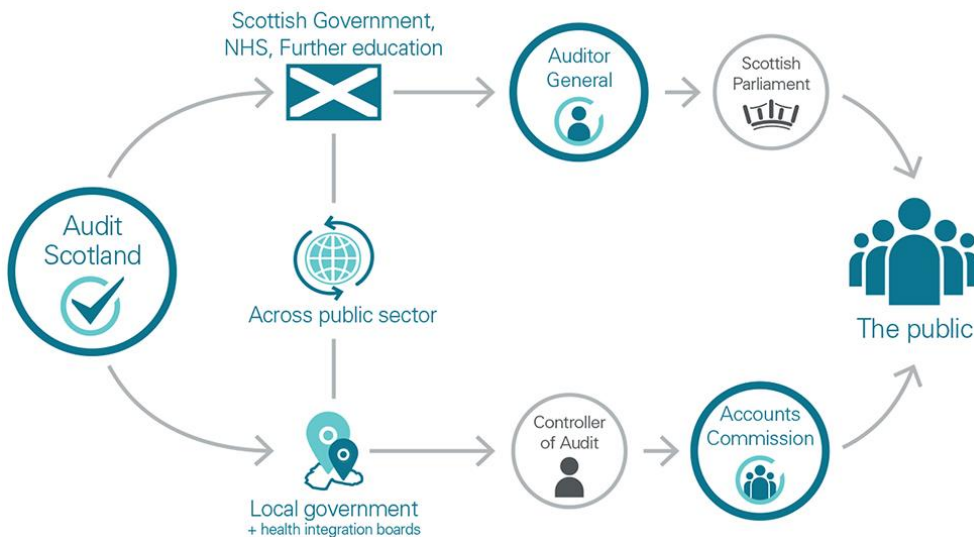
 AUDIT SCOTLAND

Prepared for West Dunbartonshire Council  
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 West Dunbartonshire Council. 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><i>Owing to the nature of this risk, assurances from management are not applicable.</i></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>West Dunbartonshire Council 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 an inherent risk of fraud.</p>	<p>Robust income generation and cash handling processes, including separation of duties.</p> <p>Independent monitoring of suspense codes – including bank reconciliations.</p> <p>Normal budgetary control processes – reported monthly to Corporate Management Team (CMT) and departmental budget holders.</p> <p>Authorisation processes regarding transactions within</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Management assurance	Planned audit work
	the ledger – e.g. journals & creditor requests.	
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice requires consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits).</p>	<p>Robust expenditure processing and cash handling processes, including separation of duties.</p> <p>Independent monitoring of suspense codes – including bank reconciliations.</p> <p>Normal budgetary control processes – reported monthly to Corporate Management Team (CMT) and departmental budget holders.</p> <p>Authorisation processes regarding transactions within the ledger – e.g. journals &amp; creditor requests.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</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, provisions and pension liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuation methodology used by the valuer consistent each year, where appropriate. Updated as required.</p> <p>Valuation methodology consistent with accepted valuation principles.</p> <p>Five year rolling programme of valuations &amp; review of significant changes each year.</p> <p>Pension liabilities valued annually by a professional actuary.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p> <p>Review of the work of the actuary.</p> <p>Review of the pension assumptions used by the actuary.</p>
<p><b>5 Untaken annual leave</b></p> <p>There have been material audit adjustments to the council's untaken annual leave accrual in the previous two financial years. There is a risk the accrual may be understated in the council's balance sheet.</p>	<p>The process reviewed last year has now been fully implemented and the senior officer completing this task will be similar to previous years, which ensures consistency of approach.</p> <p>Finance staff will liaise with Human Resources to ensure all aspects of untaken annual leave are properly accounted for in the year-end accrual.</p>	<p>Review the 2016/17 untaken annual leave accrual during the audit of the 2016/17 financial statements.</p> <p>Ensure inclusion of untaken annual leave for those on maternity leave and long term sick leave.</p>
<p><b>6 Financial statements audit</b></p> <p>To reduce the risk of missing sign-off deadlines for the financial statements, it is essential that there is a process in place within the finance department for responding timeously to audit queries.</p>	<p>Appropriate planning arrangements for closure of final accounts will continue to be implemented and ongoing dialogue will continue between the Finance Service and the auditors to ensure timeous closure of accounts.</p>	<p>Liaise with finance staff in advance of financial statements audit.</p>

Audit Risk	Management assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>7 Financial sustainability</b></p> <p>At the time of writing this plan, West Dunbartonshire Council had identified a funding gap of £2.196 million in 2017/18. This incorporates management adjustments and increase to council tax bandings. It has been approved by members that reserves will be used to address this funding gap. West Dunbartonshire Council have an internally agreed prudential target of 2% of net expenditure. The use of reserves to close the funding gap in 2017/18 poses a significant risk that this prudential target will be breached.</p>	<p>Longer term finance strategy – reported to full Council in August each year and updated December/February.</p> <p>Monitoring of budgetary control reporting to CMT monthly from period three (also committee &amp; full Council) – this includes monitoring of savings options.</p>	<p>Review financial monitoring reports and the financial position.</p> <p>Undertake specific audit work on financial planning and governance. This will include the robustness of long term financial planning.</p>
<p><b>8 Capital management</b></p> <p>In 2016/17, the capital budget for West Dunbartonshire Council (including HRA) was £135million. Last year external audit reported on significant underspends in the council's capital programme. In 2016/17, gross capital expenditure is projected to be underspent against the original budget by £35 million (26% underspend).</p> <p>There is a risk that the council's ability to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area is affected due to delays in investment or improvements to the asset base.</p>	<p>Monitoring of capital spend monthly from period 3 through budgetary control reporting process – reported to CMT monthly (and &amp; committee/full Council as part of normal cycle).</p>	<p>On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate.</p>
<p><b>9 Elected members</b></p> <p>The 2017 local government elections will result in a number of new elected members. There is a risk that there is a loss of skills and experience amongst members and this may have a detrimental impact on the council's decision-making processes. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The Audit Scotland</p>	<p>Plans are in place and processes are being developed to provide elected members with appropriate training and development in the period following the election.</p>	<p>Review of the council's induction and training arrangements for councillors following the elections.</p> <p>Assess the effectiveness of decision making and scrutiny arrangements as part of ongoing BV audit work.</p>

Audit Risk	Management assurance	Planned audit work
<p>publication How Councils Work provides guidance in this area: <a href="http://www.audit-scotland.gov.uk/about-us/accounts-commission/how-councils-work-roles-and-working-relationships-in-councils-are-you">http://www.audit-scotland.gov.uk/about-us/accounts-commission/how-councils-work-roles-and-working-relationships-in-councils-are-you</a></p>		
<p><b>10 Highway network assets</b></p> <p>Following release of the Highway Network Assets briefing number 4, the requirement of the Code to include highway network assets within the financial statements at depreciated replacement cost instead of historical cost has been postponed until 2017/18. Guidance issued by CIPFA/LASAAC has confirmed that the new accounting policies will be applied from 1 April 2017. The council should ensure that plans are in place to address this to reduce the risk of non-compliance and missed financial statements sign-off deadlines.</p>	<p>There is an agreement in place that the Roads Department will populate the valuation spreadsheet and it has been requested that internal audit assist in the sampling of this data.</p> <p>It has been agreed that the input data for the valuation will be populated annually using the latest version of the model, to enable a valuation to be included within the draft annual financial statements.</p>	<p>For 2016/17 we will review and report on the council's preparation for this significant change.</p>

## The audit of trusts registered as Scottish charities

**3.** Members of West Dunbartonshire Council are sole trustees (that is, only members of the council are trustees) for 8 trusts, registered as Scottish charities, with total assets of some £343,000.

**4.** The preparation and audit of the financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. 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. Consequently, 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

**5.** Based on our discussions with staff and initial planning work undertaken we have identified the audit risks detailed in [Exhibit 2](#).

## Exhibit 2

Audit Risk	Management assurance	Planned audit work
<p><b>1 Governing documentation</b> The Deed of Trust for the UIE Award is in the process of being updated. If this is not concluded promptly there is a risk of delays in issuing awards.</p>	<ul style="list-style-type: none"> <li>Work is underway to normalise the position of this trust to allow awards to be made.</li> </ul>	<ul style="list-style-type: none"> <li>Liaise with officers during process of updating Deed of Trust</li> <li>Review amended Deed of Trust</li> <li>Comment in Annual Audit Report</li> </ul>

## Reporting arrangements

**6.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 3](#), 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).

**7.** 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.

**8.** We will provide an independent auditor's report to West Dunbartonshire Council, and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 3

### 2016/17 Audit outputs

Audit Output	Target date	Audit and Performance Review Committee Date
Key Controls Report	31 May	21 June
Annual Audit Report including ISA 260 requirements	20 September	27 September
Signed Independent Auditor's Report	28 September	N/A

## Audit fee

**9.** The agreed audit fee for the 2016/17 audit of West Dunbartonshire Council is £256,710. In determining the audit fee we have taken account of the risk exposure of West Dunbartonshire Council, 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 by 30 June 2017.



**10.** We have also agreed an audit fee of £2,100 for the audit of trusts registered as Scottish charities.

**11.** 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 Performance Review Committee and Accountable Officer

**12.** 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.

**13.** The audit of the financial statements does not relieve management or the Audit and Performance Review Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**14.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**15.** 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

**16.** 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 West Dunbartonshire Council and the associated risks which could impact on 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 West Dunbartonshire Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- 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.

**17.** 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 and of the income and expenditure of the council and its group for the year
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code
- whether they 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

**18.** Materiality defines the maximum error that we are prepared to accept and still conclude 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 West Dunbartonshire Council are set out in [Exhibit 4](#).



## Exhibit 4

### 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.	£4.035 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 50% of planning materiality.	£2.018 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 1% of planning materiality.	£40,000

19. We also set separate materiality levels for the audits of the charities accounts as detailed below.

## Exhibit 5

### Trust materiality values

Trust	Planning materiality*	Performance materiality	Reporting threshold**
Dr AK Glen & West Dunbartonshire Trust Funds	£3,500	£1,750	£100

\* Based on the latest audited accounts and set at 1% total funds for the year ended 31 March 2016 , rounded up as considered appropriate.

\*\*In view of the amounts involved, we have set the reporting floor at £100. .



20. 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 Performance Review Committee.

### Timetable

21. 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 6 which takes account of submission requirements and planned Audit and Performance Review Committee dates.

## Exhibit 6

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	28 June
Latest submission date of unaudited West Dunbartonshire Council financial statements with complete working papers package	30 June
Latest date for final clearance meeting with Strategic Lead - Resources	6 September
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	20 September
Independent auditor's report signed	28 September
Latest date for signing of WGA return	30 September

### Internal audit

**22.** 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 West Dunbartonshire Council staff overseen by the Audit and Risk Manager.

### Adequacy of Internal Audit

**23.** Overall, we concluded that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Progress against internal audit's plan is reported on a quarterly basis at the Audit and Performance Review Committee, providing members with assurances over the council's governance arrangements. Although it has been stated that not all audits on the 2016/17 plan will be completed due to unforeseen investigations, these audits have been deferred and included within the 2017/18 plan.

### Areas of reliance

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

- Cash and Bank
- Debtors
- Stocks and Stores
- Payroll

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

- Home Care
- Purchasing Cards
- City Deal

- Economic Development
- ICT Risk Register
- Public Access to Council IT Systems
- Disaster Recovery and Business Continuity Controls

## Audit dimensions

**26.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 7](#).

### Exhibit 7

#### Audit dimensions



**27.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

#### Financial sustainability

**28.** 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 longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- 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
- whether the council can demonstrate the affordability and effectiveness of funding.

## Financial management

**29.** 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:

- whether the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

## Governance and transparency

**30.** 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 council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs).
- 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

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

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

## Best Value

**32.** 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.

**33.** 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 for each council, which will provide a rounded picture of the council overall.

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

**34.** The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 8](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

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## Exhibit 8

### 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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**35.** The work planned in West Dunbartonshire Council 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 also 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

**36.** 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.

**37.** The engagement lead for West Dunbartonshire Council is Fiona Mitchell-Knight, Assistant 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 West Dunbartonshire Council.

### Quality control

**38.** 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.

**39.** 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.

**40.** 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.



# West Dunbartonshire Council

## Annual Audit Plan 2016/17

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