

Comhairle nan Eilean Siar

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

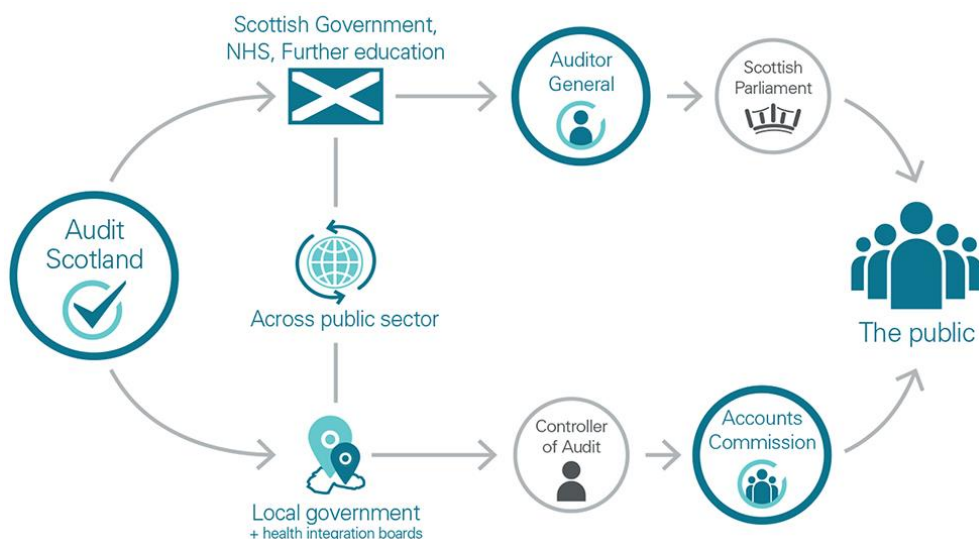
Prepared for Comhairle nan Eilean Siar

February 2018

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.

2. 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

3. 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

2017/18 Key audit risks

| Audit Risk | Source of assurance | Planned audit work |
|--|---|---|
| Financial statement issues and risks | | |
| <p>1 Risk of management override of controls</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>Review of accounting estimates.</p> <p>Use of data analytics to:</p> <ul style="list-style-type: none"> carry out detailed testing of journal entries focus testing of accruals and prepayments evaluate significant transactions that are outside the normal course of business. |
| <p>2 Risk of fraud over income</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</p> | <p>All key financial systems are reviewed over the Strategic Audit Plan lifespan. All systems such as Council Tax, NDR and Debtors are covered.</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</p> |

| Audit Risk | Source of assurance | Planned audit work |
|--|---|--|
| <p>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>Particular areas of concern include council tax, non domestic rates and income from sundry debtors.</p> | | <p>income transactions and significant grant income.</p> <p>Review of National Fraud Initiative (NFI) arrangements and results.</p> |
| 3 Risk of fraud over expenditure | | |
| <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>Recent audit work identified payments to an individual who was no longer employed by the Comhairle and a fraudulent request to amend bank details leading to financial loss to the Comhairle. We also reported in our housing benefit report that the benefit service has suspended management checks and intervention activities to ensure that all available resources are focused on core processing work.</p> <p>Some recommended matches in the NFI process have not been adequately investigated by officers.</p> | <p>New process is in place and staff in P2P have been trained. Email briefing on new process issued to Directors.</p> <p>New start in Council Tax now covering NFI for single person discount; purchase to pay (creditors) matches will be reviewed once maternity leave cover is in place; private residential homes to be picked up by financial assessment team; Fraud Officer has been providing support to benefits during implementation – will return once backlog has been cleared.</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>Review of National Fraud Initiative (NFI) arrangements and results.</p> |
| 4 New Council Tax / Housing Benefit system | | |
| <p>A new IT system for Non Domestic Rates was introduced in January 2017. The system is provided by Capita and was extended to council tax, housing benefits, council tax reduction and housing benefit overpayment recovery in June 2017. The introduction of a new system provides a risk to the existence and operation of key controls and to the migration of data between systems.</p> | <p>Testing Information will be provided as part of the 2017/18 audit – go live was week commencing 12 June 2017.</p> | <p>Review of planning and testing documentation produced and maintained by the Comhairle.</p> <p>Testing of the data migrated to the new system for assurance over accuracy and completion.</p> <p>Walkthrough and testing of the controls of the new system.</p> <p>Substantive testing of the year end balances from the new system.</p> |

Wider dimension risks

5 Financial sustainability

| Audit Risk | Source of assurance | Planned audit work |
|--|---|--|
| <p>In setting its 2017/18 budget the Comhairle identified a £6.6 million budget gap for 2017/18. Agreed savings of £3.1 million together with a reduction in health and social care funding of £0.5 million leaves a residual gap of £3 million which, was to be funded from reserves. Using reserves in this way isn't sustainable and the Comhairle will need to make further decisions to address its financial position in the short term and plan for the medium and long term.</p> | <p>The Budget Setting Report, approved by the Comhairle on 7 February 2018, included a Programme of Service Redesign to address the forecast budget shortfall over the next four years and maintain reserves.</p> | <p>Review budget monitoring reports and the financial position at the year end.</p> <p>Undertake audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non recurring savings.</p> <p>Review of assumptions included within the financial plan.</p> <p>Reliance on the work of internal audit on budget setting arrangements.</p> <p>Assess whether long term financial planning includes the affordability of capital investment plans and the impact on revenue budgets.</p> |

6 Workforce planning

The Comhairle has had problems with recruitment affecting performance in a number of service areas. The number of people of working age living in the Western Isles over the next 20 years is expected to fall

The latest Local Government Benchmarking Framework data highlights that the current gender pay gap for staff at the Comhairle is 16.4%. This is the highest in Scotland, which has an average of 4.5%. . There is a risk that the Comhairle is unable to provide services and close gender pay gaps to meet business and strategic objectives in the future.

A number of steps have been taken to address recruitment issues e.g. PGDE route for teachers in specialist areas and the apprenticeship programme.

Workforce planning is well underway. An Apprenticeship Strategy was approved in October 2017.

HR will support the Service Redesign Programme and ensure it is underpinned by workforce planning as a focus and readiness for future service delivery.

The Comhairle continues to review and update key documents in relation to equality legislation to ensure they meet statutory requirements.

The Comhairle's latest Equal Pay Audit (April 2017) shows that the Gender Pay Gap for all employees has reduced to 13.7% and the position will continue to be monitored.

Review key Comhairle documents including the Equal Opportunities Statement and Policy, Equality Outcomes and Mainstreaming Reports and Equality Monitoring Statistics.

Review and assess the Comhairle's medium and longer term workforce plans.

Investigate the reasons for the gender pay gap, looking at particular staff groups and services.

Assess plans for addressing some of the key workforce challenges that face the Comhairle

7 ICT risks

| | | |
|------------------------------------|----------------------------|-------------------------------|
| The IT Strategy requires an update | Work is underway on the IT | Undertake specific ICT review |
|------------------------------------|----------------------------|-------------------------------|

| Audit Risk | Source of assurance | Planned audit work |
|---|---|---|
| <p>to reflect current legislation and guidance. The IT Unit Business Continuity Plan is still to be completed, together with a system prioritisation plan. The incomplete infrastructure, systems and supporting protocols which are required as part of the disaster recovery plan have also not been fully addressed. This was reported in our 2016/17 Annual Audit Report.</p> <p>The Comhairle has not fully implemented email security measures. The DMARC (domain-based message authentication, reporting and conformance) system is recommended by the UK National Cyber Security Centre (NCSC).</p> <p>There is a risk that the Comhairle remain vulnerable to cyber attacks and may be unable to provide services in the event of key systems failure as it does not have adequate business continuity planning.</p> | <p>Strategy and it is expected that this will be complete in 2018/19.</p> <p>A review of the NCSC blue print for email is ongoing to allow us to move to the recommended model, including DMARC.</p> <p>As well as PSN compliance, the Comhairle is working with the Scottish Government on the national cyber security arrangements.</p> | <p>of data security and information governance, including review of:</p> <ul style="list-style-type: none"> • progress in implementing action and reporting arrangements • compliance with Scottish Government cyber security arrangements <p>Assess development of business continuity planning.</p> |

Reporting arrangements

4. 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.

5. 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.

6. We will provide an independent auditor's report to Comhairle nan Eilean Siar and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of the Comhairle and 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.

Exhibit 2

2017/18 Audit outputs

| Audit Output | Target date | Audit and Scrutiny Committee Date |
|---------------------------|-------------------|-----------------------------------|
| Interim Management Report | 25 May 2018 | 19 June 2018 |
| Annual Audit Report | 07 September 2018 | 24 September 2018 |

| Audit Output | Target date | Audit and Scrutiny Committee Date |
|------------------------------|-------------------|-----------------------------------|
| Independent Auditor's Report | 07 September 2018 | 24 September 2018 |

Audit fee

7. The agreed audit fee for the 2017/18 audit of Comhairle nan Eilean Siar is £194,550 (2016/17 - £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 18 June 2018.

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 out with 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 (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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
- 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
- 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 2017/18 Code, of the state of the affairs of the council and its group as at 31 March 2018 and of the surplus or deficit on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 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. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. 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 |
|--|--------------|
| Planning materiality – 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. | £1.7 million |
| Performance materiality – 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 40% of planning materiality. | £0.7 million |
| Reporting threshold (i.e. clearly trivial) – 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 4.5% of planning materiality rounded to a memorable numeric. | £75,000 |



17. 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

18. 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 | 19 June 2018 |
| Latest submission date of unaudited annual accounts with complete working papers package | 19 June 2018 |
| Latest date for final clearance meeting with Director of Finance and Corporate Resources | 07 September 2018 |
| Issue of letter of representation and proposed independent auditor's report | 07 September 2018 |
| Agreement of audited unsigned annual accounts | 07 September 2018 |
| Issue of Annual Audit Report including ISA 260 report to those charged with governance | |
| Independent auditor's report signed | 24 September 2018 |

Internal audit

19. 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 team of staff managed by a Chief Internal Auditor.

Adequacy of Internal Audit

20. 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 Internal Audit reliance

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

- Payroll
- Non Domestic Rates

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

- Budget setting arrangements
- Data security registers / information security
- Disaster recovery
- Corporate asset management
- Computer audit
- Statutory performance indicators

Audit dimensions

23. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

24. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on Best Value.

Financial sustainability

25. 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 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 Comhairle can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

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

Governance and transparency

27. 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

28. 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

29. As part of our responsibility to report on the audit dimensions over the current audit appointment the areas of proposed audit work we have identified are outlined in [Exhibit 6](#). This will be subject to annual review.

Exhibit 6 Strategic plan

| Dimension | 2017/18 | 2018/19 | 2019/20 to 2020/21 |
|------------------------------------|---|---------------------------------------|--|
| Financial sustainability | Development of longer term financial planning | | Shared services development |
| Financial management | Financial governance and resource management | Asset management | Financial governance and resource management |
| Governance and transparency | Workforce and succession planning and equal opportunities | Business planning (change management) | Community engagement/empowerment |
| Value for money | | Measuring impact on outcomes | Working with partners |

Source: Audit Scotland

Best Value

30. 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. Auditors will use the framework for their audit work from October 2016.

31. 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 that will provide a rounded picture of the council overall
- an Annual Assurance and Risks report that the Controller of Audit will provide to the 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.

32. The six councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 7](#). Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

Exhibit 7

2017/18 Best Value Assurance Reports

| | |
|-------------------------------|-----------------------------|
| East Ayrshire Council | Glasgow City Council |
| Dumfries and Galloway Council | West Dunbartonshire Council |
| East Lothian Council | Fife Council |

Source: Audit Scotland

33. The work planned in Comhairle nan Eilean Siar this year will focus on the Comhairle's arrangements for demonstrating Best Value in financial planning and governance, workforce/succession planning and equal opportunities. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the Comhairle's self evaluation processes are in driving improvement across the Comhairle. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

34. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When

auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

35. 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 Comhairle nan Eilean Siar.

Quality control

36. 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.

37. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Accounts Commission 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.

38. 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.

Adding Value

39. Through our audit work we aim to add value to the Audited Body. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Audited Body has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Comhairle nan Eilean Siar

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