

Fife Council

Annual Audit Plan 2017/18



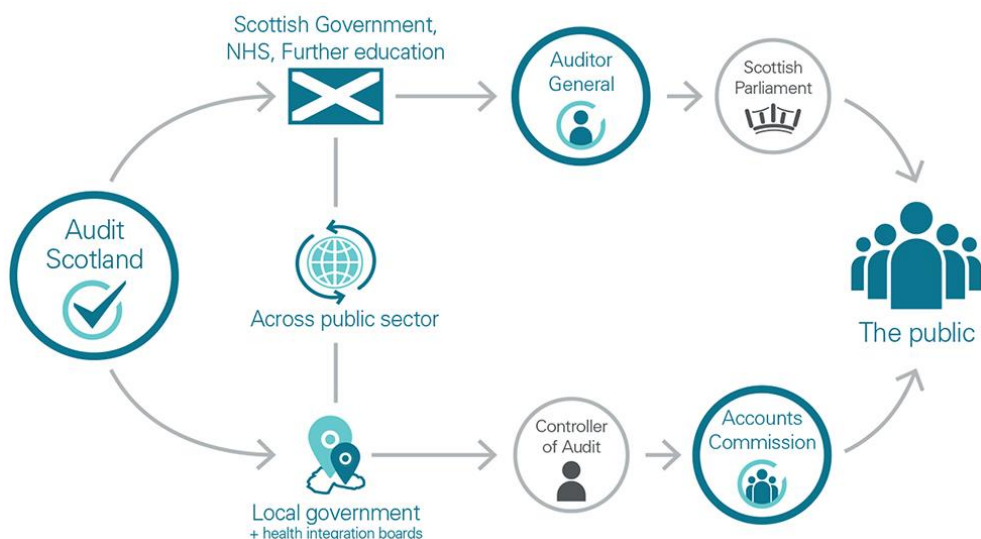
 AUDIT SCOTLAND

Prepared for Fife Council Council
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. 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 Fife 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

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>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>2 Risk of fraud over income</p> <p>Fife 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>Internal controls for key revenue systems are subject to review by Audit and Risk Management Services.</p> <p>Budgetary control by management.</p> <p>A range of measures are in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders, a Code of</p>	<p>Establishing and testing the operation of key controls over income systems</p> <p>Analytical procedures on income streams.</p> <p>Detailed substantive testing of revenue transactions.</p>

Audit Risk	Source of assurance	Planned audit work
	<p>Conduct for Staff, a Fraud Prevention and Detection Strategy and a Whistleblowing Guide.</p> <p>Audit and Risk Management Services have a lead role in co-ordinating anti-fraud activities, including investigating all allegations of fraud and where appropriate reporting their findings to the Standards and Audit Committee.</p>	
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice extends the assumptions within ISA240 to the risk of fraud associated with areas of expenditure. Fife Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants and therefore there is an inherent risk of fraud.</p>	<p>Management have controls in place around expenditure on welfare benefits, social care payments and grants as well as payment of creditors and salaries; this includes the use of duplicate software for creditors and stringent checking, reconciliation and verification reviews around payment of salaries.</p>	<p>Establishing and testing the operation of key controls over expenditure systems</p> <p>Detailed substantive testing of expenditure transactions focusing on the areas of greatest risk including social care and housing benefit payments</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of pensions and non current assets. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>The Beacon valuations used to value council dwellings are due to be re-assessed as part of the 2017-18 accounts. This is likely to have a material impact on the current value of £705 million.</p> <p>The 2017-18 accounts will also reflect the outcome of the triennial valuation of the pension fund, based on revised membership data and financial assumptions</p>	<p>The Council has in place sound accounting policies with regard to these areas and complies with all current accounting standards in relation to them.</p> <p>The accounts are prepared by qualified accountants following a robust process and timetable to ensure compliance with the above accounting standards.</p>	<p>Assessment of the scope, independence and competence of the professionals engaged</p> <p>Review of the Beacon methodology</p> <p>Review of the actuarial valuation including assumptions.</p> <p>Substantive testing of journals and disclosures in connection with these estimates</p>
<p>5 Non current asset register replacement</p> <p>The asset register records asset values, tracks revaluation reserve balances and calculates depreciation charges. The current software (AIRS) is due to be replaced by a new programme TF Cloud in February 2018. There is a risk of</p>	<p>The replacement of the NCAR is a project within the legacy system replacement programme with appropriate project management and governance in place.</p> <p>The existing system will continue to run in parallel until assurances have been obtained over the</p>	<p>Review the reconciliation of data in the new NCAR with the old NCAR to gain assurance that the migration is accurate.</p> <p>Substantive testing of a sample of depreciation charges and revaluation adjustments.</p>

Audit Risk	Source of assurance	Planned audit work
errors in the migration and operation of the new system.	completeness, accuracy and functionality of the new system.	
<p>6 Group accounting</p> <p>Fife Council has a number of subsidiaries and is required to prepare group accounts. A number of adjusted and unadjusted errors were identified in the 2016/17 accounts and the consolidation arrangements are being reviewed. There is risk that intra group transactions and balances are not identified and eliminated leading to inaccuracies in the group accounts</p>	<p>Consolidation procedures for the whole of Group Accounts are currently being reviewed and updated.</p>	<p>Review the revised consolidation process and confirm appropriateness.</p> <p>Obtain completed component audit questionnaires and, where appropriate, meet with the auditors of material components.</p> <p>Undertake a detailed review of intra-group transactions.</p>
Fife Council Charitable Trusts risks		
<p>7 Inactive trusts</p> <p>Only 12 of the 48 charitable trusts paid out grants in 2016-17. If the level of inactivity continues in 2017-18 there is an increased risk that trusts not providing a public benefit will fail the Charity test set out in guidance issued by the Office of Scottish Charity Regulator (OSCR).</p>	<p>The profile of trusts, application process and funds available has been raised with local community groups.</p> <p>A limited review of existing trusts and reasons for lack of spend is ongoing.</p>	<p>Review the council's analysis of trust activity across a three year period to identify trusts at risk of dormancy and report any breaches through the Annual Audit Report</p>
Wider dimension risks		
<p>8 Financial management</p> <p>Current budget monitoring reports highlight that only 72% of planned 2017/18 savings will be achieved this year. As well as an additional £5 million for Health & Social Care agreed in February 2017, the council's current forecast outturn also includes additional funding for the IJB to cover a £3.8 million overspend on Health & Social Care. Although the current budget projections indicate the council will breakeven this year, the increasing pressures on health and social care and the expected shortfall in planned savings continue to pose a risk to the council's level of uncommitted reserves.</p>	<p>There is regular monitoring of revenue budget and tracking of savings. This is reported to Committee.</p> <p>Services are aware of the savings to be made and are required to make substitute savings if they are unable to achieve their target.</p> <p>Balances are held to assess the financial risks including those associated with non achievement of savings.</p>	<p>Review budget monitoring reports and the financial position at the year end.</p> <p>Consider the robustness and completeness of financial monitoring through the year and activities to deliver proposed savings.</p>
<p>9 Financial sustainability</p> <p>In September 2017 the council's</p>	<p>Service change plans and a wider corporate change initiative – Enabling Change</p>	<p>Assess the impact of 2017/18 financial performance on future financial sustainability,</p>

Audit Risk	Source of assurance	Planned audit work
<p>Medium Term Financial Strategy was approved. By current forecasts based on the Local Government settlement proposed in December 2017, budget reductions of £29 million (2018-19), £58 million (2019-20) and £90 million (2020-21) are required. Meeting these reductions will require significant service redesign. As there are limited usable reserves available, failure to make expenditure savings poses a risk to the council's financial sustainability</p>	<p>have been developed to address the financial challenges</p>	<p>including the level of savings achieved</p> <p>Review the 2018/19 budget.</p> <p>Review the reasonableness of assumptions in the long and medium term financial planning.</p>

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers 48 trusts with charitable status, with total assets of £1.6 million. We will perform the audit of the council's charitable trusts in parallel with the audit of Fife Council's financial statements. We have recognised a specific risk in relation to the charitable trusts at point 5 in [Exhibit 1](#) above.

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 Fife Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of Fife Council 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.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Standards & Audit Committee Date
Interim Management Report	15 th June 2018	29 th June 2018
Annual Audit Report	28 th September 2018 (Final)	27 th September 2018 (Draft)
Independent Auditor's Report	28 th September 2018 (Signed)	27 th September 2018 (Proposed)

Audit fee

7. The agreed audit fee for the 2017/18 audit of Fife Council is £504,760 (2016/17 £502,920). In determining the audit fee we have taken account of the risk exposure of Fife 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 on 29th June 2018

8. We have also agreed an audit fee of £6,475 (2016/17 £6,450) for the charitable trusts that are detailed at paragraph 3

9. 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

Standards & Audit Committee and Chief Executive

10. 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.

11. The audit of the financial statements does not relieve management or the Standards & Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

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

13. 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

14. 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 Fife 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 Fife 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.

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

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2018 and of the surplus/ deficit on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2017/18 Code of practice on local authority accounting in the UK
- 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

16. 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. We calculate materiality at different levels as described below. The calculated materiality values for Fife Council 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 for the year ended 31 March 2017 based on the audited accounts.	£13.5 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 25% of planning materiality.	£3.4 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 1% of planning materiality, rounding to a memorable number.	£150,000

17. We also set separate materiality levels for the Fife Charitable Trusts Account as detailed in [Exhibit 4](#)

Exhibit 4

Charitable Trusts materiality values

Trust	Planning materiality	Performance materiality	Reporting threshold
Transactions	£700	£500	£10
Balances	£16,500	£11,500	£100



18. 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 Standards & Audit Committee.

Timetable

19. 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 5](#) which takes account of submission requirements and planned Standard Audit Committee dates

Exhibit 5

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	29 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with Executive Director Finance and Corporate Services	12 Sept 2018
Agreement of audited unsigned annual accounts; Issue of draft Annual Audit Report including ISA 260 requirements, letter of representation and proposed independent auditor's report	21 Sept 2018
Independent auditor's report signed	28 Sept 2018
Latest date for signing of WGA return	28 Sept 2018

Internal audit

20. 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 Fife Council's Audit and Risk Management Service (ARMS)

Adequacy of Internal Audit

21. We have undertaken a formal review of internal audit and have concluded that ARMS, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

Areas of Internal Audit reliance

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

- Valuation Roll
- Children Services Payments

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

- Corporate Improvement / Management of corporate projects
- Members' Induction, Code of Conduct, Support and Development

Audit dimensions

24. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

Exhibit 6

Audit dimensions



Source: Code of Audit Practice

25. 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

26. 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 and investment decisions it has made.

Financial management

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

- the arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how assurance has been gained that the 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

28. 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. These include :

- 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 decision – making and finance and performance reports.
- the quality and timeliness of financial and performance reporting, including work to reduce the size of the annual accounts documents and increase their accessibility.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Fife Council can provide evidence that it is demonstrating value for money in the use of its resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Strategic plan for the five year appointment

30. 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 7](#). The work scheduled to be undertaken during the 2017/18 audit year will be reported in the Best Value Assurance Report to be published in May 2018. Work scheduled for future years will be subject to annual review.

Exhibit 7

Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning	Demand modelling for long term financial plan Service change plans and transformation	Financial planning
Financial management	Financial governance and resource management	City Deals	Financial governance and resource management Legacy financial system replacements - COMIS
Governance and transparency	Governance and accountability (Role of Boards follow up)	Council vision and development of the "Plan for Fife" Community engagement / empowerment Operating arrangements of the joint administration and new Committee structure	
Value for money		Performance / outcomes Affordable housing programme Office and depot rationalisation Partnership working Digitisation of services	Delayed discharge

Source: Audit Scotland

Best Value

31. 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.

32. 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.

33. The six councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 8](#). Fife Council's report will be considered by the Accounts Commission in May 2018, the other reports will be considered by the Accounts Commission between June 2018 and November 2018.

Exhibit 8

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

Independence and objectivity

34. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has 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 Fife Council is Brian Howarth, Audit Director. The engagement lead for the charitable trusts is Pearl Tate, Senior Audit Manager. 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 Fife Council.

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.

Fife Council

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