

# Renfrewshire Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Renfrewshire Council  
22 January 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 Renfrewshire 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	Management's source of 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.</p> <p>Renfrewshire 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</p>	<p>The council has well developed processes for the authorisation, separation of duties and workflow associated with the Councils income streams. Clear schemes of delegation and the authorised signatory databases are regularly updated. Financial systems have authorisation process in-built to ensure the</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of transactions focusing on the areas of greatest risk.</p>

Audit Risk	Management's source of assurance	Planned audit work
<p>is an inherent risk of fraud.</p>	<p>risk of fraud is minimised. The audit plan which internal audit complete will include a range of systems testing across income and expenditure processes, with recommendations being monitored for implementation.</p> <p>The council has established a Counter Fraud Team who have been actively raising awareness of both financial and non-financial fraud risks through a series of training events targeted at key personnel.</p>	
<p><b>3 Risk of fraud and expenditure</b></p> <p>The risk of fraud over income presumed by ISA 240 is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by the council in delivering services.</p>	<p>The council has well developed processes for the authorisation, separation of duties and workflow associated with the Councils expenditure. Clear schemes of delegation and authorised signatory databases are regularly updated. Financial systems have authorisation process in-built to ensure the risk of fraud is minimised. The audit plan which internal audit complete will include a range of systems testing across income and expenditure processes, with recommendations being monitored for implementation.</p> <p>The council has established a Counter Fraud Team who have been actively raising awareness of both financial and non-financial fraud risks through a series of training events targeted at key personnel.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of transactions focusing on the areas of greatest risk.</p>
<p><b>4 Estimates 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, pensions and provisions.</p> <p>The council holds a material amount of assets at fair value. The valuations are significant estimates which are based on specialist and management assumptions.</p> <p>The council's net liability relating</p>	<p>Where estimates are required those are based on the best information available and on a professional and prudent approach.</p>	<p>Review the external revaluations performed in the year, assessing whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals.</p> <p>Review of the pension actuary and the assumptions made in calculating the estimated pension liability.</p> <p>Review the provision for doubtful debts to assess</p>

Audit Risk	Management's source of assurance	Planned audit work
<p>to the Strathclyde Pension Fund at 31 March 2017 was £335 million. This value is an estimate based on a number of assumptions from the pension fund actuary.</p> <p>At 31 March 2017 the council held a provision for doubtful debts of £23 million. This provision is based on the assessed likelihood that debts are recoverable.</p> <p>This subjectivity represents an increased risk of material misstatement in the financial statements.</p>		<p>whether it is reasonable and complete based on the perceived risk that the debt will not be recovered, and in line with historic experience.</p> <p>For any other areas of estimation and judgement we will carry out focussed substantive testing of provisions and accruals.</p>

### 5 Capacity of finance function

A risk around the capacity of the finance function was raised in our 2016/17 audit plan and we noted in our 2016/17 report that a number of year end processes were delayed, in particular the preparation of the submission for the Whole of Government Accounts.

As there have not been significant changes to staffing, and similar pressures exist in 2017/18 (in particular, requirements to support the ERP project), this may increase the risk of issues arising in the preparation and audit of the financial statements.

The finance team operate to a clearly understood year end timetable and procedures, which include responsibilities for particular aspects of the annual accounts completion.

Progress on the annual accounts process will be closely monitored.

Regular meetings with management.

Focussed audit testing on areas where prior year errors were noted.

### Wider dimension risks

#### 6 Financial sustainability

Renfrewshire Council are currently projecting a breakeven position in 2017/18. This requires £20 million of savings, the majority of which are sought through the debt smoothing strategy.

Financial pressures are expected to continue in the medium term with the council estimating an annual savings requirement of at least £20 million per year in 2018/19 and 2019/20.

Meeting these savings targets is expected to require changes to the way the council delivers

The Council has undertaken a programme of significant change in recent years to address the financial constraints faced by local government with these challenges continuing in the medium term. Financial plans are continually reviewed to ensure financial sustainability is maintained over the medium term.

Attendance at council meetings.

Monitoring of performance against savings plans.

Monitoring service delivery KPIs.

Assessment of savings plan for 2018/19 and 2019/20.

Audit Risk	Management's source of assurance	Planned audit work
<p>services, and there is a risk that this will affect the quality of the services provided.</p>		
<p><b>7 Enterprise Resource Planning System</b></p> <p>A new Enterprise Resource Planning (ERP) was originally planned to be in place in on 1 April 2016. This has since been subject to a number of delays and is currently projected to be completed in September 2018. There is a risk that additional delays will put further strain on the council's staffing resources and incur additional costs.</p>	<p>The implementation plans and resources are regularly assessed to ensure they reflect issues which arise and to ensure that the system will be fit for purpose once live.</p>	<p>Regular monitoring of ERP project progress.</p> <p>Assessment of ERP cost to date.</p>
<p><b>8 Effectiveness of Audit, Risk and Scrutiny Board</b></p> <p>The structure, composition and remit of the previous Audit, Scrutiny and Petitions Board was reassessed in response to the findings in the 2016/17 audit.</p> <p>This resulted in the formation of the Audit, Risk and Scrutiny Board (ARSB) in May 2017, following the local government elections.</p> <p>Due to the relatively recent changes in the membership and remit there will be some continued risk in respect of the effectiveness of the ARSB.</p>	<p>Officers will continue to support members of the ARSB to ensure the effectiveness of the board.</p>	<p>Attendance at ARSB meetings.</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 Renfrewshire Council, and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Accountable Officer 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	Audit, Risk and Scrutiny Board Date
Interim management letter	May 2018	28 May 2018
Annual Audit Report including ISA 260 requirements	September 2018	25 September 2018
Signed Independent Auditor's Report	September 2018	N/A

### Audit fee

6. The proposed audit fee for the 2017/18 audit of Renfrewshire Council is £340,290 (2016/17: £338,960). The proposed audit fees for the audit of the Trust Funds and Common Good Funds administered by Renfrewshire Council are £1,000 and £4,550 respectively. In determining the audit fee we have taken account of the risk exposure of Renfrewshire 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 29 June 2018.

7. 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, Risk and Scrutiny Board and Accountable Officer

8. 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.

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

#### Appointed auditor

10. 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.

11. 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

**12.** 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 Renfrewshire 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 Renfrewshire 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.

**13.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with the applicable law and the 2017/18 Code of the state of affairs of the council and its group as at 31 March 2018 and of the income and expenditure of the council and its group for the year then ended
- whether they have been properly prepared in accordance with IFRSs as adopted by the European union, as interpreted and adapted by the 2017/2018 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that our 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 Renfrewshire Council 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, and calculated based on the 2016/17 audited accounts. Planning materiality will be updated for 2017/18 figures on receipt of the unaudited annual accounts in June 2018.	£6.944 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 60% of planning materiality.	£4.166 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 is calculated as 2.5% of planning materiality.	£0.175 million

Source: Audit Scotland

**15.** We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issues identified will be reported to the Audit, Risk and Scrutiny Board.

#### Timetable

**16.** 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, Risk and Scrutiny Board dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance.	28 June 2018
Latest submission date of unaudited annual accounts with complete working papers package.	29 June 2018
Latest submission date of unaudited WGA return	20 July 2018
Latest date for final clearance meeting with Director of Finance and Resources.	Early September 2018
Agreement of audited unsigned financial statements; Issue of Annual Report including ISA 260 report to those charged with governance.	25 September 2018

Independent auditors report signed.	By 30 September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	25 September 2018
Latest date for signing of WGA return	30 September 2018

## Internal audit

**17.** 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 the internal audit service of the council.

### Adequacy of Internal Audit

**18.** We carry out an annual assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards.

**19.** Our assessment as part of the 2016/17 audit noted a number of issues which were reported in an interim letter in June 2017. The letter contained a number of recommendations and agreed actions, which we will follow up on as part of our 2017/18 audit work. The issues raised do not impact our ability to place reliance on the work of internal audit as described below.

### Areas of Internal Audit reliance

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

- Non-domestic rates

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

- Workforce planning
- ICT
- IJB Post Implementation Review

## 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](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

**23.** 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

**24.** 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

**25.** 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 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

**26.** 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
- 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

**27.** 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
- whether the council can demonstrate that there is a clear link between money spent, output and outcomes delivered
- whether the council can demonstrate that outcomes are improving
- whether there is sufficient focus on improvement and the pace of it.

## 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. 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 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.

**30.** Renfrewshire Council was one of the six councils considered in the first year of the five year audit cycle, with the [Renfrewshire Council BVAR](#) published in August 2017.

**31.** Audit work in this area in 2017/18 will therefore be reduced in comparison to 2016/17, and limited to:

- Leadership, Governance and Scrutiny
- Follow-up of issues raised in the 2016/17 BVAR

### **Independence and objectivity**

**32.** 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.

**33.** The engagement lead of Renfrewshire Council is David McConnell. 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 Renfrewshire Council.

### **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 (and relevant supporting guidance) 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.

### **Adding Value**

**37.** 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.

# Renfrewshire Council

## Annual Audit Plan 2017/18

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)