

West Dunbartonshire Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for West Dunbartonshire 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.

Contents

Risks and planned work	4
Audit risks	4
Reporting arrangements	8
Audit fee	8
Responsibilities	9
Audit scope and timing	10
Financial statements	10
Materiality	10
Internal audit	12
Audit dimensions	12
Best Value	14
Independence and objectivity	16
Quality control	16
Adding Value	16

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 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

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
1 Risk of management override of controls 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.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
2 Risk of fraud over income 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.	Robust income generation and cash handling processes, including separation of duties. Independent monitoring of suspense codes – including bank reconciliations. Normal budgetary control processes – reported	Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.

Audit Risk	Source of assurance	Planned audit work
	<p>monthly to Corporate Management Team (CMT) and departmental budget holders.</p> <p>Authorisation processes regarding transactions within the ledger – e.g. journals & creditor requests.</p>	
<p>3 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</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 & 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>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of material account areas such as non-current assets and provisions. 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 and updated as required.</p> <p>Valuation methodology consistent with accepted valuation principles.</p> <p>Five year rolling programme of valuations & review of significant changes each year.</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>5 Untaken annual leave</p> <p>There have been material audit adjustments to the council's untaken annual leave accrual in the previous three financial years. There is a risk the accrual may be understated in the council's balance sheet.</p>	<p>Procedures will be reviewed and a checking process implemented.</p>	<p>Review of the 2017/18 untaken annual leave accrual during the audit of the 2017/18 financial statements.</p>

Audit Risk	Source of assurance	Planned audit work
<p>6 Accounts Payable/Receivable working papers</p> <p>During the 2016/17 financial statements audit the working papers for Accounts Payable and Accounts Receivable did not provide a clear breakdown of the balances held at year end.</p> <p>There is a risk of misstatement within the financial statements.</p>	<p>Officers are reviewing procedures in advance of the year end.</p>	<p>Continue to work with officers prior to the compilation of the working papers.</p> <p>Carry out substantive testing of Accounts Payable and Accounts Receivable balances within the 2017/18 financial statements.</p>
Wider dimension risks		
<p>7 Financial sustainability</p> <p>At the time of writing this plan, West Dunbartonshire Council had identified a funding gap of approximately £1.099 million in 2018/19. Savings options to close this gap are currently out for public consultation.</p> <p>If savings options are not agreed, the council may choose to use reserves to close this funding gap.</p> <p>Additionally, the council's net borrowing, as a proportion of net revenue stream including dwelling rents, continues to be amongst the highest in Scotland.</p> <p>There is a risk that the council's financial position may not be sustainable in the longer-term.</p>	<p>Monitoring of budgetary control reporting to CMT monthly from period three (also committee & full Council) – this includes monitoring of savings options. Budgetary control is also reported to the council and service committees. The Budgetary Control Report also includes ongoing monitoring of achievement of savings.</p> <p>Long-Term Financial Strategy, with projection of the council's General Fund position extended to 10 years. The Budgetary Control Report provides links between revenue and capital budgets. It considers affordability by including long-term projections and highlights the peak expected cost of borrowing based on the current 10 year plan.</p>	<p>The BV audit work will include an assessment of the council's financial position and how effectively it has planned to face the challenges of the future.</p> <p>This will also be reflected in the 2017/18 annual audit report.</p>
<p>8 Capital management</p> <p>In 2017/18, gross capital expenditure (including HRA) is projected to be underspent against the original budget by £42.571 million (34% underspend). There is a risk that the council's ability to deliver against their strategic plan is affected due to delays in investment and improvements to the asset base</p> <p>In addition, General Services</p>	<p>Monitoring of capital spend monthly from period 3 through budgetary control reporting process – reported to CMT monthly (and full Council as part of normal cycle).</p>	<p>The BV audit work will include an assessment of the council's capital project management.</p> <p>On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate.</p>

Audit Risk	Source of assurance	Planned audit work
capital receipts for 17/18 are forecast to be £10.736m i.e. 31% below the budgeted amount of £15.542m.		

The audit of trusts registered as Scottish charities

4. Members of West Dunbartonshire Council are sole trustees (that is, only members of the council are trustees) for six trusts, registered as Scottish charities, with total assets of some £324,000.
5. 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.
6. 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	Source of assurance	Planned audit work
<p>1 Governance and Investment Documentation</p> <p>As previously reported, the following risks remain for the trusts;</p> <ul style="list-style-type: none"> • The Deed of Trust for the Dunbartonshire Educational Trust Scheme 1962 requires to be updated. • The governing documentation for the McAuley Prize for Mathematics (specifically covered by a Statutory Instrument in 1996 whereby the administration of this specific endowment was passed to the Governors of the Dunbartonshire Educational Trust) is not available and a new trust deed required. • No supporting documentation has been provided to detail the title for the Clydeport 	<p>Officers continue along the process of updating and replacing the Deeds of Trust for Dunbartonshire Educational Trust Scheme 1962 and the McAuley Prize for Mathematics. Officers also continue the process to confirm the title to the Clydeport Investment.</p>	<p>Liaise with officers during process of updating and replacing Deeds of Trust.</p> <p>Liaise with officers during process to confirm title to Clydeport Investment.</p> <p>Review Deeds of Trust and Investment documentation.</p> <p>Comment in Annual Audit Report.</p>

Audit Risk	Source of assurance	Planned audit work
<p>investment recorded by the Dunbartonshire Educational Trust Scheme 1962.</p> <p>There is a risk that the Trust does not hold the title to the investment and the fund balance is overstated.</p> <p>There is also a risk of delay in issuing awards.</p>		
<p>2 Redemption Proceeds</p> <p>The Dunbartonshire Educational Trust Scheme 1962 redeemed 2 1/2% Consolidated Stock and 3 1/2% Conversion Stock in 2015/16. The proceeds of this disposal amount to £2,587 and have not been received to date. The proceeds were made payable to Glasgow City Council but the council advised that payment was not accepted and the funds remain with the broker.</p> <p>There is a risk that the fund balance is overstated.</p>	<p>Officers continue to liaise with the broker for the return of the proceeds of the redeemed stock.</p>	<p>Review during the audit of the 2017/18 financial statements and consider potential write off.</p>

Reporting arrangements

7. 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.
8. 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.
9. We will provide an independent auditor's report to West Dunbartonshire Council and Accounts Commission setting out our opinions on the annual accounts. We will provide the Strategic Lead - Resources 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 3

2017/18 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	31 March	21 March
Management Report	13 June	13 June
Annual Audit Report	30 September	26 September

Audit Output	Target date	Audit Committee Date
Independent Auditor's Report	30 September	26 September

In addition to the annual audit outputs it is anticipated that the council's Best Value Assurance Report will be discussed at the Accounts Commission meeting in June 2018.

Audit fee

10. The agreed audit fee for the 2017/18 audit of West Dunbartonshire Council is £257,760 (2016/17 £256,760). 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 2018.
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 Committee and Strategic Lead - Resources

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 Committee, as those charged with governance, of their responsibilities.

Appointed auditor

14. 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.
15. 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.

The integrated Best Value audit team

16. The team carrying out the Best Value audit work referred to in this plan, consists of your annual audit team and colleagues from Audit Scotland's Performance and Best Value team. Key team members have already been introduced to senior officers.

Audit scope and timing

Financial statements

17. 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.

18. 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 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 2017/18 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

19. 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.

20. 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
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 latest audited accounts.	£4.356 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.	£1.724 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.	£40,000
21. We do not set materiality levels for the audits of the charities accounts as, given their size, all transactions are considered material.	
22. 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 Committee or equivalent.	

Timetable

23. 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 Audit Committee dates.

Exhibit 5

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	13 June
Latest submission date of unaudited annual accounts with complete working papers package	30 June
Latest date for final clearance meeting with Strategic Lead - Resources	7 September
Issue of letter of representation and proposed independent auditor's report	26 September
Agreement of audited unsigned annual accounts	26 September
Issue of Annual Audit Report including ISA 260 report to those charged with governance	26 September
Independent auditor's report signed	30 September
Latest date for signing of WGA return	28 September

Internal audit

24. 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 & Risk Manager.

Adequacy of Internal Audit

25. 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 half-yearly basis at the Audit Committee, providing members with assurances over the council's governance arrangements. Although it has been stated that not all internal audits included within the 2017/18 plan will be completed, these reviews have been deferred and included within the 2018/19 plan.

Areas of Internal Audit reliance

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

- Trade Payables

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

- Data and Information Security – Governance and Practice
- Management of Capital Projects
- IT Procurement (hardware and Software)
- Remote Access Controls

Audit dimensions

28. 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

29. 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.

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 West Dunbartonshire Council this year will focus on the Council's arrangements for demonstrating Best Value by reviewing the following:

- The council's vision and strategic direction
- The council's self assessment/evaluation processes and the impact made
- How effectively the council plans its use of resources including asset management, financial planning and workforce planning
- How the council delivers services with partners , including consideration of the City Deal and shared service developments
- Community engagement and how this impacts on the council's activities
- How well prepared the council is to meet the challenges of the future in relation to their continuous improvement programmes such as regeneration and office rationalisation.
- Outcomes/ performance and the reporting of these, including Public Performance Reporting – potentially with detailed work in selected areas being identified from our initial review.

The work will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

34. This work will also contribute to our conclusions on the audit dimensions that we will report in our annual audit report.

Financial sustainability

35. 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

36. 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

37. 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).
- 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

38. 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.

Follow up of national audit reports

39. As part of our 2017/18 audit activity we will be carrying out some limited work to assess the local impact of some national audit reports including:

- Changing models of health and social care (published March 2016)
- Roads maintenance follow-up (published August 2016)
- Social work in Scotland (published September 2016)

We will include any significant findings from this work in our annual audit report

Independence and objectivity

40. 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.
41. The engagement lead for West Dunbartonshire Council is Fiona Mitchell-Knight, Assistant Director. 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 West Dunbartonshire Council.

Quality control

42. 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.
43. 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.
44. 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

45. 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.

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