

# East Dunbartonshire Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for East Dunbartonshire Council  
March 2020

## 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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

3. We aim to add value to East Dunbartonshire Council (the council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></p>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Identification and evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p>2 <b>Risk of material misstatement caused by fraud in income recognition.</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the</p>	<ul style="list-style-type: none"> <li>Established budget setting process including, monitoring controls</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>

Audit Risk	Source of assurance	Planned audit work
<p>recognition of income. East Dunbartonshire Council receives a significant amount of income from several sources including fees and charges. The extent and complexity of income means that there is an inherent risk of fraud.</p>	<p>and variance analysis.</p> <ul style="list-style-type: none"> <li>Member scrutiny through regular cycle of committee reporting.</li> <li>Vast majority of income received through electronic payments.</li> </ul>	<ul style="list-style-type: none"> <li>Testing the operation of key controls over council tax, NDR and housing rent income.</li> </ul>
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. East Dunbartonshire Council incurs significant costs such as welfare costs, social care payments and grants where there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> <li>Established budget setting process including, monitoring controls and variance analysis.</li> <li>Work of the Corporate Fraud Team within Internal Audit.</li> <li>Involvement in National Fraud Initiative.</li> <li>Compliance with procurement regulations and best practice.</li> </ul>	<ul style="list-style-type: none"> <li>Audit work on the National Fraud Initiative.</li> <li>Detailed substantive testing of expenditure including housing benefit transactions.</li> <li>Detailed work on procurement arrangements including declaration of gifts and hospitality.</li> </ul>
<p><b>4 Risk of error in areas of Estimation and Judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas, including:</p> <ul style="list-style-type: none"> <li>Non-current asset values which rely on expert valuations and management assumptions.</li> <li>The value of the council's pension liability which is an estimate based on information provided by management and actuarial assumptions.</li> <li>The council's provisions for doubtful debts which are based on management's assessment of the recoverability of debts.</li> <li>The value of other provisions which are based on management's assessment of the value and probability of potential future outflows.</li> </ul> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Valuation completed by qualified actuary</li> <li>Applicability of actuarial assumptions reviewed by officers.</li> </ul>	<ul style="list-style-type: none"> <li>Review of the work of the valuer, including focused substantive testing of the classification and valuation of assets.</li> <li>Confirm asset values in valuation certificates are correctly reflected within the 2019/20 accounts.</li> <li>Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used.</li> <li>Review of council's procedures for ensuring actuarial valuations provided are appropriate and include assumptions relating to relevant legal rulings.</li> <li>Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts.</li> <li>Review the provision for doubtful debts</li> </ul>

Audit Risk	Source of assurance	Planned audit work
		<p>calculations to assess whether they are reasonable and complete based on the risk that the debt will not be recovered.</p> <ul style="list-style-type: none"> <li>Review the basis for other provisions recognised, including detailed testing to source documentation where required.</li> </ul>

### Wider dimension risks

<p><b>5 2020/21 Budget Setting Process</b></p> <p>The timing of budget setting for the UK and Scottish public sector has led to increased uncertainty for councils in setting their 2020/21 budgets and council tax.</p> <p>There is a risk that the council's budget does not reflect the final settlement, and further in-year savings need to be made.</p>	<p>The Council has continued, and enhanced, the series of reports within the overall budget setting process. Work has continued, as part of the <i>Prioritising Our Services, Prioritising Our Resources</i> framework, to take account of a number of inherent uncertainties and anticipated Council response as the year continued. These reports were specified to account for the most up to date position along with an assessment of the likely course of events. It is anticipated that future reporting will seek to consolidate any variance against that anticipated and make suitable provision if required.</p>	<ul style="list-style-type: none"> <li>Review of the council's 2020/21 budget setting arrangements.</li> </ul>
<p><b>6 Risk to financial sustainability</b></p> <p>The council has strong financial management but the medium term financial plan shows significant savings are needed to address future funding gaps. This is a particular challenge for services commissioned by the East Dunbartonshire Health &amp; Social Care Partnership, with an overspend of £3.5 million currently projected.</p> <p>There is a risk to long term financial sustainability and the delivery of the Local Outcome Improvement Plan for East Dunbartonshire if transformation and the delivery of efficiencies is not realised.</p>	<p>The Council continues to plan into the long term so that it can ensure that delivery against core priorities and legislative requirements. This also ensures that performance can be sustained albeit within a reduced financial envelope. There continues to be risks associated with delivery of sustained improvements and savings resulting from the impact of ongoing austerity. Continued</p>	<ul style="list-style-type: none"> <li>Review the development of a 3 year budget process and the reserve strategy.</li> <li>Consider the 2020/21 revenue budget and required savings target.</li> <li>Review the financial monitoring during the year, including the use of reserves and delivery of planning savings.</li> </ul>

Audit Risk	Source of assurance	Planned audit work
	focus on corporate and service risk registers, along with the Council's performance management framework and wider scrutiny arrangements mitigate against such risks.	

Source: Audit Scotland

## Reporting arrangements

5. 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).

6. 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.

7. We will provide an independent auditor's report to East Dunbartonshire Council and Accounts Commission setting out our opinions on the annual accounts. We will also provide the members of East Dunbartonshire Council and the Accounts Commission for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2020	2 April 2020
Management Report	29 May 2020	11 June 2020
Independent Auditor's Report	30 September 2020	TBC
Annual Audit Report	30 September 2020	TBC

Source: Audit Scotland

## Grant claims and returns

8. The council is required to make various grant claims and returns to UK or Scottish Government departments. Such claims and returns require to be audited prior to submission. We will perform testing and provide audit certificates in accordance with guidance issued by Audit Scotland. We have planned for the following claims and returns in 2019/20:

- Housing benefit subsidy claim
- Non-domestic rate income return
- Education maintenance allowances

9. Where unexpected claims or returns are received or supporting working papers are not adequate, a supplementary fee may be requested.

## Wider Dimension Work

10. From our discussions with our Local Area Network partners we note that the Scottish Housing Regulator (SHR) are in ongoing dialogue with the council relating to their service performance for homelessness and non-emergency repairs. We will continue to liaise with the SHR and the council throughout the year.

## The audit of trusts registered as Scottish charities

11. Members of East Dunbartonshire Council are sole trustees for 3 charitable trusts, registered as Scottish charities, with total assets of some £1.156 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

12. The 2006 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. Therefore, a full and separate audit and independent auditor's report is required for each register charity where members of the East Dunbartonshire Council are sole trustees, irrespective of the size of the charity.

13. There are no specific risks for these audits which we require to bring to your attention.

## Audit fee

14. The proposed audit fee for the 2019/20 audit of East Dunbartonshire Council is £256,030 (Prior year fee £251,190). In determining the audit fee we have taken account of the risk exposure of East 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 annual accounts, with a complete working papers package on 26 June 2020.

15. We have also agreed an audit fee of £600 (Prior year fee £2,000) for the charitable trusts which are detailed in paragraph 11.

16. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 & Risk Management Committee and Chief Finance Officer

17. 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. In East Dunbartonshire Council the Chief Finance Officer is the proper officer (section 95 officer), with responsibility for the administration of financial affairs. The council has delegated responsibility for the oversight of internal and external audit to its Audit & Risk Management Committee.

18. The audit of the annual accounts does not relieve management or the Audit & Risk Management Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**19.** Our responsibilities as independent auditors are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**20.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**21.** The annual accounts, which include the financial statements, will be the foundation and source for most 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 East 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 East 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.

**22.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure 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 2019/20 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.

## Statutory other information in the annual accounts

**23.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**24.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

**25.** 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 opinions in the independent auditor's report.



26. We calculate materiality at different levels as described below. The calculated materiality values for East Dunbartonshire Council are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess 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 2020 based on the latest audited accounts for 2018/19.	£4.153 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 25% of planning materiality.	£1.038 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. This has been calculated at 1% of planning materiality.	£42 thousand

Source: Audit Scotland

27. We also set separate materiality for the remaining sundry trust with charitable status and the educational endowments as outlined in [Exhibit 4](#).

### Exhibit 4 Materiality values

Trust	Planning materiality	Performance materiality	Reporting threshold
East Dunbartonshire Council Charitable Trusts	£305	£153	£4

Source: Audit Scotland

### Timetable

28. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 5](#).

### Exhibit 5 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	25 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	26 June 2020

 Key stage	 Date
Latest date for final clearance meeting with Chief Finance Officer	11 September 2020
Issue of Letter of Representation and proposed independent auditor's report	18 September 2020
Agreement of audited unsigned annual report and accounts	18 September 2020
Consideration of audited annual accounts and audit reporting by those charged with governance	TBC
Independent auditor's report signed	30 September 2020
Issue of Annual Audit Report to those charged with governance	30 September 2020

## Internal audit

**29.** Internal is provided by the in house internal audit section at East Dunbartonshire Council. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**30.** We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**31.** 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**32.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Debtors (Ash)
- Housing Rent Arrears
- Leases

## Audit dimensions

**33.** 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

**34.** 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

**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 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### 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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how the council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place 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 such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### Value for money

**38.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the council can demonstrate :

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

### EU withdrawal

**39.** The United Kingdom left the European Union on 31 January 2020. Work is ongoing with the Scottish Government and the council to ensure that all necessary and appropriate steps are taken to minimise any disruption caused by EU withdrawal during and beyond the 12 month transition period. We will continue to monitor developments in this area.

### Best Value

**40.** The annual audit includes work on Best Value arrangements as part of the wider scope annual audit. Best Value is being assessed over the five-year audit appointment, both through the ongoing annual audit work, and 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. The BVAR on East Dunbartonshire Council is planned for 2021.

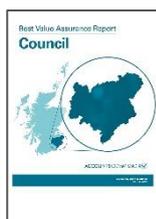
**41.** The work planned in the council this year will focus on the Council's arrangements for demonstrating Best Value in Governance & Accountability and Fairness & Equality. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective 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.

**42.** The seven councils on which a BVAR will be published during 2020 are listed in [Exhibit 7](#).

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## Exhibit 7

### 2019/20 Best Value Assurance Reports



Aberdeenshire Council

Dundee Council

Argyle and Bute Council

Falkirk Council

City of Edinburgh Council

Moray Council

North Ayrshire Council

Source: Audit Scotland

## Independence and objectivity

**43.** 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 robust arrangements in place 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.

**44.** The engagement lead (i.e. appointed auditor) for East Dunbartonshire Council is Fiona Mitchell-Knight, Audit Director. The engagement lead for the charitable trusts is Peter Lindsay, 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 East Dunbartonshire Council or the Charitable Trusts.

## Quality control

**45.** 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.

**46.** 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**47.** 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.

# East Dunbartonshire Council

## Annual Audit Plan – 2019/20

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