

Fife Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

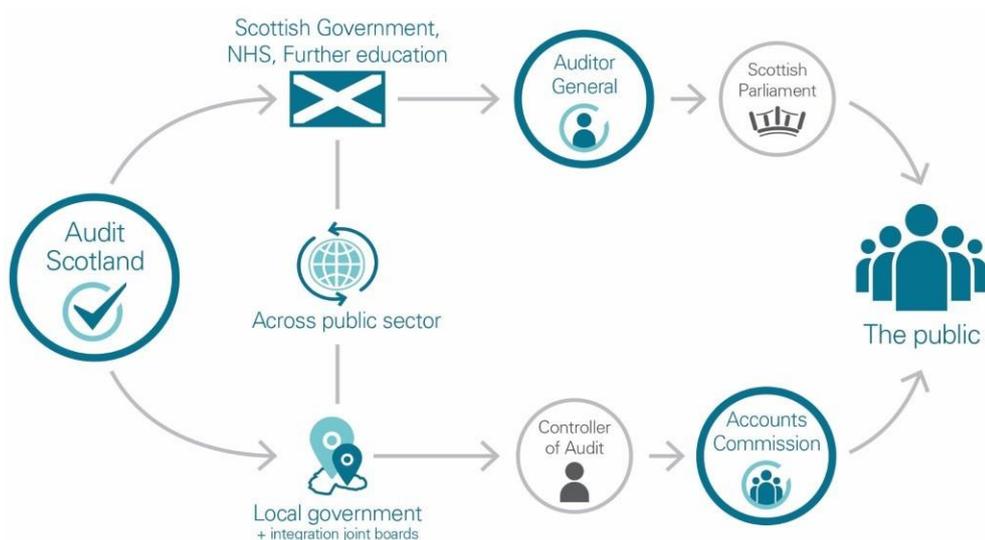
Prepared for Fife Council

April 2021

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.
3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

5. We aim to add value to Fife 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 Fife Council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Fife 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

2020/21 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements risks			
1	<p>Risk of material misstatement caused by management override of controls</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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • 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	<p>Risk of material misstatement in estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>As a result of the COVID-19 pandemic, valuers issued material uncertainty declarations as part of their valuations of non-current assets and some pension fund investments in 2019-20. If this remains in place for 2020-21, disclosures in the accounts will be required.</p>	<p>The Council has in place sound accounting policies regarding 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>	<ul style="list-style-type: none"> • Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. • Review appropriateness of actuarial assumptions and results including comparison with other councils. • Walkthrough the process of valuation to understand the basis for significant judgements • Establish officer's arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions. • Consider the impact of any material uncertainty in valuations on our audit opinion.
3	<p>New financial and payroll systems</p> <p>During 2020/21, Fife Council introduced new general ledger, accounts payable and payroll systems. The systems went live in July 2020 and November 2020.</p> <p>The new systems will be used to produce the 2020/21 financial statements, and, as with any major</p>	<p>Experienced project teams overseen the implementation of both systems and have continued to be in place for the remainder of the year.</p> <p>Year End team have established a working group with project team members to ensure the</p>	<ul style="list-style-type: none"> • Establish, review and test the controls in place within the general ledger, accounts payable and payroll systems. • Confirm the completeness and accuracy of the balances transferred from the old systems to the new.

	Audit Risk	Source of assurance	Planned audit work
	change in financial systems, there is an increased risk of misstatement in the figures and balances.	development of robust processes and procedures. The accounts are prepared by qualified accountants following a robust process and timetable to ensure compliance with the above accounting standards.	
4	<p data-bbox="256 638 624 784">COVID-19 Covid-19 has had a significant impact on the council in the 2020/21 audit year:</p> <ul data-bbox="256 795 678 1892" style="list-style-type: none"> <li data-bbox="256 795 678 1164">• Financial Management – increases in expenditure caused by the pandemic have been largely met through additional Scottish Government grants and increased flexibilities for certain areas of funding and accounting practices. In February, the Council was forecasting a deficit of £3.6 million at 31 March 2021. <li data-bbox="256 1176 678 1422">• Financial reporting - The Council are required to make judgements on the correct accounting treatment in relation to additional funding arrangements – including whether the council is acting as agent or principal. <li data-bbox="256 1433 678 1892">• Administration of business support grants - Fife Council has been asked to administer more than £90 million of COVID-19 business support grant payments on behalf of the Scottish Government in 2020-21. Nearly £30 million of this has been paid by Business Gateway Fife on behalf of the Council. There is a risk that the internal controls and governance arrangements were not suitably robust to mitigate fraud. 	<p data-bbox="703 638 1018 862">The Council has reported extensively on the expected financial position, including the financial impact relating to COVID-19 throughout the financial year.</p> <p data-bbox="703 873 1018 1086">Year end processes and procedures have been developed to include specific work associated with Accounting for COVID-19 costs and additional grants.</p> <p data-bbox="703 1097 1018 1254">It is anticipated that there will be a significant but temporary increase in the level of reserves at 2020/21.</p> <p data-bbox="703 1265 1018 1456">Details of accounting treatment of grants and Agency/Principal have been provided by LASAAC and these will be adhered to.</p> <p data-bbox="703 1467 1018 1601">Processes and procedures put in place to manage the business support grants.</p>	<ul data-bbox="1061 638 1431 1892" style="list-style-type: none"> <li data-bbox="1061 638 1431 862">• Review the 2020-21 outturn position and assess the impact of COVID-19 related expenditure and funding on the council's reserves position. <li data-bbox="1061 873 1431 1120">• Review treatment and disclosure of COVID-19 funding in the 2020/21 accounts and confirm that this is in line with Scottish Government and CIPFA/LASAAC guidance on accounting. <li data-bbox="1061 1131 1431 1254">• Discussions with management during the year to consider the use of financial flexibilities. <li data-bbox="1061 1265 1431 1444">• For the most significant support grants (by value), establish the conditions attached and the associated controls implemented over these. <li data-bbox="1061 1456 1431 1579">• Confirm existence and operation of these controls by completing a walkthrough. <li data-bbox="1061 1590 1431 1646">• Review potential NFI data matches. <li data-bbox="1061 1657 1431 1713">• Review of Internal Audit work on Covid-19 grants. <li data-bbox="1061 1724 1431 1892">• Assess any national reporting of business grant performance and discuss any issues with officers.
Wider dimension risks			
5	<p data-bbox="256 2027 667 2139">Financial sustainability Scottish Government covid-19 funding is unlikely to be recurring.</p>	<p data-bbox="703 2072 1018 2139">The Council approved its Revenue Budget on 11</p>	<ul data-bbox="1061 2027 1431 2094" style="list-style-type: none"> <li data-bbox="1061 2027 1431 2094">• Review the impact of COVID-19 on the 2021-22

	Audit Risk	Source of assurance	Planned audit work
	<p>The Council's ability to achieve efficiency savings has been impacted by the pandemic with only 59% forecasted to be achieved in 2020-21 compared to 85% in 2019-20.</p> <p>Current risk share arrangements as part of health and social care integration are being considered as part of the review of the Integration Scheme due for completion by 31 March 2021.</p> <p>With a relatively low level of general fund reserves, the medium-term financial outlook presents a risk to the financial sustainability of the council.</p>	<p>March 2021 which contained details of expected reserves as well as a risk register. The budget report sets out the intention for ensuring that the optimum funding solutions are applied in 2021/22 along with a review of the medium term financial strategy.</p> <p>Monitoring of achievement of savings continues to be reported to Policy and Co-ordination Committee.</p>	<p>budget and medium-term financial plans.</p> <ul style="list-style-type: none"> Assess the impact of any changes to the risk share arrangements for the Integrated Joint Board.

Source: Audit Scotland

7. We have considered the risk of fraud in ISA 240 including over income recognition and over expenditure in accordance with Practice Note 10. We have rebutted the presumption that a material risk exists, except for management override above. This is based on the extent of income and expenditure which is received and issued to other parts of the public sector (including Scottish Government Funding and expenditure on the IJB, other NHS boards and councils).
8. For the areas that are subject to some risk, we have considered the incidence of fraud using National Fraud Initiative and Counter Fraud Service outcomes. We have assessed that the volume of transactions, that would need to be fraudulent to prove a material risk, is implausible. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We review controls over key areas of risk and will review any additional controls required due to Covid-19 additional funding and expenditure.

Reporting arrangements

9. 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.
10. 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.
11. 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 Accountable Officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	5 April 2021	15 April 2021
Management Report	25 June 2021	August 2021
Independent Auditor's Report	15 October 2021 (Proposed)	29 October 2021 (Signed)
Annual Audit Report	15 October 2021 (Draft)	29 October 2021 (Final)

Source: Audit Scotland

The audit of trusts registered as Scottish charities

12. Members of Fife Council are sole trustees for 46 trusts, registered as Scottish charities, with total assets of some £1.6 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.
13. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. Section 7 (1) of the regulations allows for a single set of accounts to be prepared incorporating all the registered charities and this approach has been applied to the Fife Council charities. We will perform the audit of the council's charitable trusts in parallel with the audit of Fife Council's financial statements.
14. Based on our initial planning work There are no specific risks for the audit of Fife Charitable Trusts which we require to bring to your attention.

Audit fee

15. The proposed audit fee for the 2020/21 audit of Fife Council is £534,970 (£522,470 in 2019/20). 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 annual accounts, with a complete working paper package on 30 June 2021.
16. We have also proposed an audit fee of £6,850 (2018/19 £6,700) for the charitable trusts.
17. 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

Standards and Audit Committee and Accountable Officer

18. 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.
19. The audit of the annual accounts does not relieve management or the standards and Audit Committee as those charged with governance, of their responsibilities.

Appointed auditor

- 20.** 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.
- 21.** 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

22. 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 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.

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

- give a true and fair view of the state of affairs of Fife Council and its group as at 31 March 2021 and of the income and expenditure of Fife Council and its group for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



Statutory other information in the annual accounts

24. 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.

25. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

26. 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.

27. We calculate materiality at different levels as described below. The calculated materiality values for Fife Council and Fife Council Charitable Trusts are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality – Fife Council	Amount
Planning materiality – 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 with an additional uplift based on the current forecast expenditure for 2020/21.	£16 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 50% of planning materiality.	£8 million
Reporting threshold (i.e., clearly trivial) – 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 1.6% of planning materiality.	£250,000
Materiality – Fife Council Charitable Trusts	Amount
Planning materiality – 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 assets for the year ended 31 March 2020 based on the latest audited accounts for 2019.	£15,000
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 70% of planning materiality.	£10,000
Transaction performance materiality - This is a separate trigger point for errors identified in Expenditure on charitable activities in the Statement of Financial Activities and was calculated at 1% of gross expenditure based on the latest audited accounts x 70%	£320
Reporting threshold (i.e., clearly trivial) – 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.	£150

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 4](#)

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	29 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for final clearance meeting with Financial Operations Manager and Head of Finance	1 October 2021
Agreement of audited unsigned annual accounts; Issue of agreed draft Annual Audit Report including ISA 260 requirements, draft letter of representation and proposed independent auditor's report to Standards and Audit Committee	15 October 2021
Meeting of the Standards and Audit Committee to approve the audited annual accounts for signature by the Co-leaders, Chief Executive and Executive Director of Finance and Corporate Services	29 October 2021
Independent auditor's report signed	29 October 2021
Issue of Annual Audit Report to those charged with governance	29 October 2021

Internal audit

29. Internal audit is provided by Fife Council's Audit and Risk Management Service (ARMS). As part of our planning process we carry out an annual assessment of the internal audit function 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.

Using the work of internal audit

30. International 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.

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

- Non-Domestic Rates
- Valuation List

Audit dimensions

32. 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

33. 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

34. 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.

Financial management

35. 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 systems in communicating accurate and timely financial performance can be demonstrated
- how Fife 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

36. Governance and transparency are 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 Fife 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

37. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Fife 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.

Best Value

38. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

39. 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 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.

40. The four councils on which a BVAR will be published during the fifth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2021.

Exhibit 6

2020/21 Best Value Assurance Reports

	Aberdeen City Council	Falkirk Council
	South Ayrshire Council	
	East Dunbartonshire Council	

Source: Audit Scotland

- 41.** The work planned in Fife Council this year will focus on the Council's approach to implementing the outstanding recommendations included in the Council's BVAR published in May 2018. Detailed audit work will be performed about:
- progress with governance and transformation in relation to the Fife Health & Social Care Partnership
 - progress with delivery of the Plan for Fife, which is due to be refreshed and aligned with the Council's pandemic recovery plan.
- 42.** We reported on progress in our 2019/20 management report published in August 2020 and we plan to provide a further update in our Annual Audit Report this year.

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 Fife Council is Brian Howarth, Audit Director. The engagement lead for Fife Council Charitable Trusts is Patricia Fraser, 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

- 45.** International Standard on Quality Control 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.

Fife Council

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