

# East Renfrewshire Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

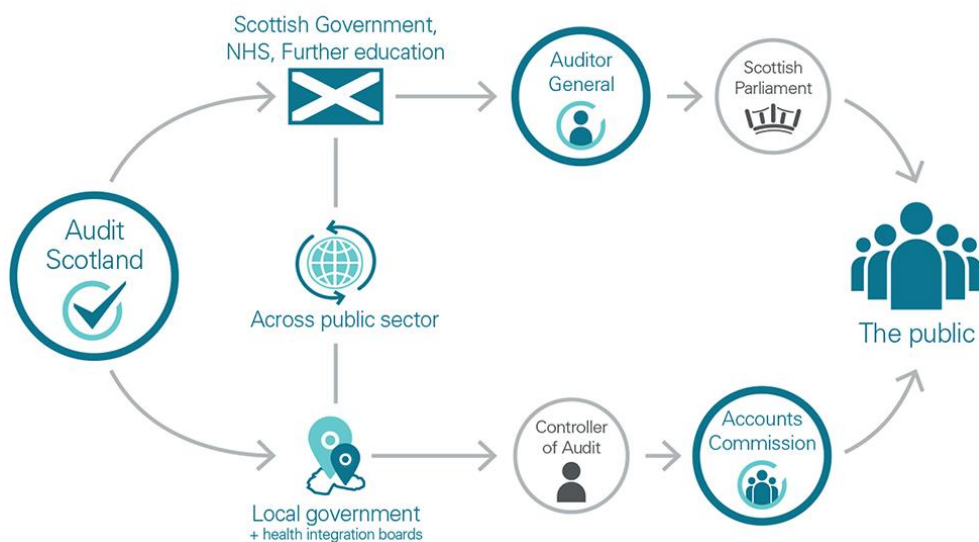
Prepared for East Renfrewshire Council

February 2017

## 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

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1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

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

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## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<b>1 Risk of management override of controls</b> 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.	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.
<b>2 Risk of fraud over income &amp; expenditure</b> ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice East Renfrewshire Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of these income streams means that, in accordance with ISA240, there is	The Council has specific antifraud and corruption arrangements which are covered in the Code of Conduct and publicised on our intranet and website. An Internal fraud liaison officer is in post and liaises directly with Fraud and Error Service (SFIS/FES) for HB cases. The Council takes part in National Fraud Initiative (NFI) exercises and follows up potential matches. In addition ,	Analytical procedures on income and expenditure streams. Detailed testing of revenue and expenditure transactions focusing on the areas of greatest risk.

Audit Risk	Management assurance	Planned audit work
<p>an inherent risk of fraud. Particular areas of risk include council tax, non domestic rates and income from sundry debtors. The risk of fraud over expenditure also applies due to the variety and extent of expenditure incurred by the council in delivering services.</p>	<p>Experian data checks are carried out and a council tax visiting officer role has been established for empty and void dwellings.</p> <p>There is a HB Fraud Hotline freephone in place and Real Time Information (RTI) income and pension details are checked with HMRC</p> <p>Senior authorisation required for any Revenues section requesting overpayment refunds.</p> <p>System log-in security in place in Revenues Section - audit trail of system updates.</p> <p>Revenues Section team leaders audit a % of individual outputs.</p> <p>Revenue Section internal procedures in place for enquiries involving friends and family - declaration of interest.</p> <p>Revenues Section leavers removed from system access, security badges returned.</p> <p>Revenues staff annual checks - C/Tax arrears.</p> <p>Debt recovery team check all payroll for larger C/Tax arrears cases annually.</p> <p>Card payment handling awareness training given to all staff taking credit/debit card payments over the telephone.</p> <p>POA established in writing before third party enquiries are handled.</p> <p>Non Domestic Rates administered through Renfrewshire Council and anti fraud procedures incorporated in SLA.</p> <p>Fraud awareness training has been arranged by SFIS/FES for revenues staff</p>	
<p><b>3 Creditors</b></p> <p>Concerns have been reported by the council's Internal Audit section regarding the length of time taken by the council to pay suppliers and in the level of duplicate payments made to suppliers. There is a risk that the council may incur financial</p>	<p>There are already various improvement projects and audit actions underway in Creditors, as reported to the Audit and Scrutiny Committee in January 2017.</p> <p>AP Forensics - proactively checks for duplicates (supplier code/amount/invoice number)</p>	<p>Detailed testing of expenditure transactions.</p> <p>Detailed cut-off testing</p> <p>Targeted testing on duplicate payments</p>

Audit Risk	Management assurance	Planned audit work
<p>loss as a result of making duplicate payments or through the application of penalties. There is also a reputational risk to the Council.</p>	<p>prior to payment runs being committed -produces report.</p> <p>Over £10k payment checks - being done during payment runs by supervisors.</p> <p>Duplicate suppliers - purging of the database is underway.</p> <p>NFI 2017 exercise underway, duplicate supplier and invoice history checked .</p> <p>The centralisation of invoices in January 17, allows creditors team more control and reduces the potential for duplication.</p> <p>Training issues around miskeying and errors have been identified and refresher training has been given..</p> <p>Management information identifies multiple entries .</p> <p>Payment runs require supervisory authorisations.</p> <p>System log in security has been improved where keyers can't authorise their own work</p>	
<p><b>4 Carefirst</b></p> <p>In 2015/16 the council introduced a Care Finance system which is used to process payments to care providers as part of the social work database. A number of concerns with the system were reported by Audit Scotland in 2015/16. These related to the lack of segregation of duties and incomplete and delayed reconciliations between the Care finance system and the finance ledger. In addition, there have been significant delays in the time taken to pay creditors by the HSCP. There is a risk that under/overpayments to providers are not identified and addressed, and could result in misstatements in the financial statements.</p>	<p>The action plan from the 2015/16 annual accounts is reported to each meeting of the Performance &amp; Audit Committee of the IJB, with the latest update as at 23 November 2016.</p> <p>Quarterly reconciliations are in place for 2016/17 between Care Finance and the ledger.</p> <p>Information at work has been introduced which provides a full audit trail for separation of duties, whilst we still pursue a system functionality solution.</p> <p>The creditors performance is improving and we are working hard to implement robust solutions to manage the timing issues related to the levels of detail within Care First and the prompt settlement of invoices.</p>	<p>Targeted testing on payments to care providers</p> <p>Detailed cut-off testing</p> <p>Review of segregation of duties controls</p> <p>Review of system reconciliations</p>
<p><b>Wider dimension risks</b></p>		
<p><b>5 Financial sustainability</b></p> <p>The council has identified a need to make savings of £7.216 million in 2017/18 and further recurring annual revenue savings on average of £12 million for the</p>	<p>The Council's long term financial strategy is set out in the Financial Planning 2017-2022 report submitted to Council on 9 February 2017</p> <p>This demonstrates the</p>	<p>Review of the council's arrangements for financial planning as part of our Best Value audit work.</p> <p>Review of the council's progress in achieving its planned</p>

Audit Risk	Management assurance	Planned audit work
<p>period to 2021/22. Making these additional savings will be challenging given the service reforms and workforce reductions which the council has already implemented. There is also a risk that the level of planned budget savings will adversely affect the level and quality of service provision.</p>	<p>potential service demands and budget shortfalls facing the Council in future years under a range of scenarios and proposes how these could be addressed in line with Council aims and policies. This strategy will be kept under review, particularly after the new administration takes over in May 2017.</p> <p>In the meantime, the shortfall for 2017/18 has been addressed in setting the budget on 9 February in the Revenue Estimates report, together with the administration's amendment to take account of the late increase in grant. The gap has been closed using a mixture of savings, efficiencies, increased income and a 3% Council Tax uplift and it is anticipated that around £3m of efficiencies will be delivered each year in the future through our ambitious change programme.</p> <p>Whilst unallocated reserves have been utilised for 2017/18 this is not in support of recurring spend and aligns with the Reserves Policy</p> <p>One year settlements have not helped in long term planning but we aim to revert to multi year revenue budgets from 2018/19 and are currently working on indicative departmental budget figures for future years for incorporation into our updated Outcome Delivery Plan so that these can be considered in line with service planning. The CMT have already drafted some £3.4m of savings proposals for 2018/19 and workforce planning is also continuing for future years.</p> <p>The Council's revenue monitoring reporting format is currently under review to improve visibility to members of key variances and thereby strengthen control. Regular</p>	<p>savings.</p>

Audit Risk	Management assurance	Planned audit work
	<p>reports are submitted to Cabinet and all include the forecast outturn position.</p> <p>General Fund Capital Plans are prepared for 8 years and HRA Capital Plans for 5 years. These are compiled in accordance with the Council's Capital Investment and Treasury Management Strategies</p>	
<p><b>6 Disaster Recover/Resilience planning</b></p> <p>The council has recently secured a second data centre. This should allow full disaster recovery testing to be undertaken. In addition, the council is now undertaking a review of business continuity plans with the aim of improving resilience planning. There is a risk that until the full implementation of the improved disaster recovery processes, the council suffers a loss of data and potential disruption to services.</p>	<p>Work is continuing with the commissioning of the secondary data centre with all major elements procured or well progressed in the procurement process.</p> <p>The data centre will be commissioned in two phases. Phase one is core network services, with phase two looking to deliver greater resilience across lines of business applications.</p> <p>Consolidated Business Continuity Plans are in place and regularly reviewed across the organisation.</p> <p>Until fully commissioned, existing Disaster Recovery plans and incident management processes remain in place with regular testing. Data backup tests follow a set rotation of recovery tests. Application recovery tests are on a rolling programme with the owning departments.</p>	<p>Review of disaster recovery arrangements and testing undertaken.</p> <p>Review of Business Continuity and resilience planning arrangements</p>
<p><b>7 Information security policy</b></p> <p>The council's information security policy has not been updated since October 2014. There is a risk that if this policy is not kept current then it will not keep pace with any potential, new or emerging threats.</p>	<p>Following resource changes within the Information Security function, all Information Security Policies and Procedures have been under review. The master Information Security Policy is in final revised draft and expected to be published before the end of the 2016/17 Financial Year.</p> <p>Secondary policies are also</p>	<p>Review of the progress made in updating the council's information security policies</p>



Audit Risk	Management assurance	Planned audit work
	<p>under review and a number have been retired or merged to align with current PSN and Government Security guidance. The remaining are also under review to ensure currency.</p> <p>A formal rolling regular review programme to mitigate the currency issue will be commenced once the revised policies are published</p>	

## Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

5. We will provide an independent auditor's report to East Renfrewshire Council, and Accounts Commission summarising the results of the audit of the annual accounts. An independent auditor's report will be provided for the charitable trusts administered by East Renfrewshire Council We will provide the Head of Accountancy and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
Interim Audit Report	June 2017	To be confirmed
Best Value Assurance Report	September 2017	To be confirmed
Annual Audit Report including ISA 260 requirements	September 2017	28 September 2017
Signed Independent Auditor's Report	September 2017	28 September 2017

## Audit fee

6. The agreed audit fee for the 2016/17 audit of East Renfrewshire Council is £221,060. The agreed audit fee for the audits of the charitable trusts administered

by East Renfrewshire Council is £1,000. In determining the audit fee we have taken account of the risk exposure of East Renfrewshire Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

**7.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## **Responsibilities**

### **Audit & Scrutiny Committee and Head of Accountancy**

**8.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

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

### **Appointed auditor**

**10.** Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** Auditors in the public sector give an independent opinion on the financial statements. 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.

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# Audit scope and timing

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## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of East Renfrewshire Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how East Renfrewshire Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- whether the financial statements give a true and fair view and are properly prepared in accordance with proper accounting practice
- whether the auditable part of the remuneration report has been properly prepared
- the management commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance
- the annual governance statement is consistent with the financial statements and prepared in accordance with relevant requirements
- report on any failure to achieve a prescribed financial objective
- the information in the annual accounts other than the financial statements and other reports stated above to identify any material inconsistencies with the financial

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for East Renfrewshire Council are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the budget for 2017.	£3.218 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 50% of planning materiality.	£1.609 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.030 million



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

### Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit & Scrutiny Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	By 31 August 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Head of Accountancy	Early September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 September 2017
Independent auditor's report signed	By 30 September 2017
Signing of WGA return	By 30 September 2017

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## Internal audit

**17.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by East Renfrewshire Council staff overseen by a Chief Internal Auditor.

### Adequacy of Internal Audit

**18.** We have carried out an annual assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards. Our review of the internal audit service is nearing completion and we will report our conclusions separately to management.

### Areas of reliance

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

- Debtors
- Payroll - all pay-runs
- Housing - Rent accounting
- Financial ledger
- Creditor payments

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

- Housing Benefit/Universal credit
- Application Controls - CARS( Corporate Debt Recovery system )

### Audit dimensions

**21.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions



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**22.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

#### Financial sustainability

**23.** 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 East Renfrewshire Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made. (delete as appropriate)

#### Financial management

**24.** 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 East Renfrewshire Council has arrangements in place to ensure systems of internal control are operating effectively
- whether East Renfrewshire Council can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how East Renfrewshire Council has assured itself that its financial capacity and skills are appropriate

- whether East Renfrewshire Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**25.** 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 East Renfrewshire 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**

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

- East Renfrewshire Council can provide evidence that it is demonstrating value for money in the use of its resources.
- East Renfrewshire Council can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- East Renfrewshire Council can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

### **Best Value**

**27.** 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. As such, auditors will use the framework for their audit work from October 2016.

**28.** 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.

**29.** The six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 6](#) below. East Renfrewshire Council is one of those to be covered in this first tranche. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

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## Exhibit 6

### 2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

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**30.** We plan to publish the BVAR for East Renfrewshire Council in September 2017. To inform this report we will review all aspects of Best Value at the council. This includes:

- performance and outcomes
- improvement
- leadership, governance and scrutiny
- partnership and community empowerment
- financial planning

### Independence and objectivity

**31.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**32.** The engagement lead for East Renfrewshire Council is David McConnell, Assistant Director. 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 Renfrewshire Council.

### Quality control

**33.** 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.

**34.** 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 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.

**35.** 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 Renfrewshire Council

## Annual Audit Plan 2016/17

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