

# Inverclyde Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

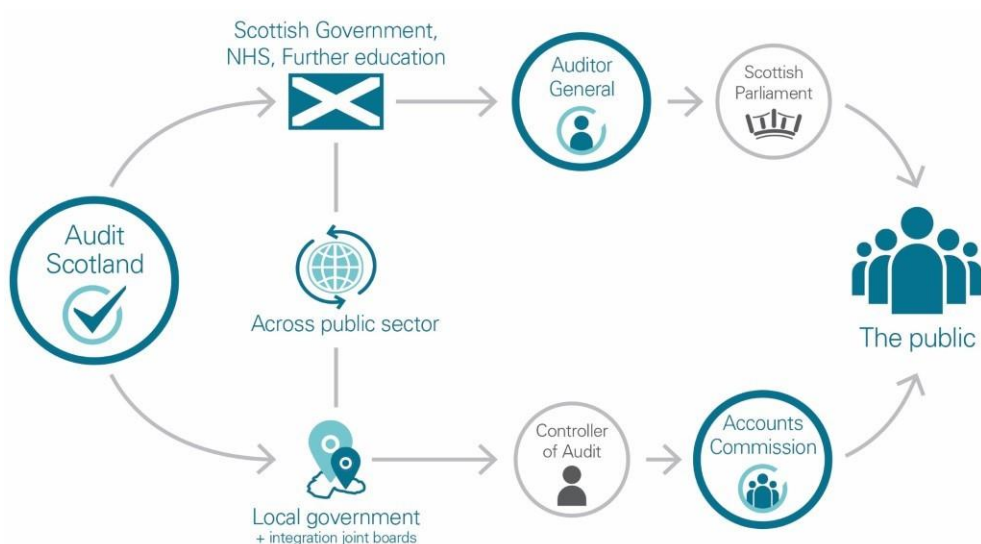
Prepared for Inverclyde Council  
March 2021



## 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.

---

# Contents

---

Risks and planned work	4
Audit scope and timing	9

---

# 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 Inverclyde 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 Inverclyde 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 Inverclyde Council. We have categorised these risks into financial statements risks and wider dimension risks, although the COVID-19 risk has elements of both. 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
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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>• Use of data analytics to carry out detailed testing of journal entries.</li> <li>• Review and assessment 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><b>2 Risk of material misstatement caused by error in areas of estimation and judgement</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of non-current assets and pension assets/liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the Covid-19 pandemic. The council has a rolling programme of valuations with 2020/21 being a valuation year for land and buildings.</p> <p>Given categories of assets have not been subject to valuation since the impact of Covid-19, there is a risk of material uncertainty over non-current asset valuations in the 2020/21 accounts.</p>	<p>The Council has clearly defined procedures in place, including, where appropriate the use of experts to make significant estimations and judgements.</p> <p>All estimations and valuations are reviewed by qualified finance and property staff.</p>	<ul style="list-style-type: none"> <li>• Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.</li> <li>• Review appropriateness of actuarial assumptions and results including comparison with other councils.</li> <li>• Walkthrough the process of valuation to understand the basis for significant judgements</li> <li>• Establish officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</li> <li>• Establish officers' arrangements for getting assurances over the impact of Covid-19 on the accuracy of non-current assets not subject to valuation in year.</li> <li>• Review actual experience of significant estimates made in the prior year.</li> </ul>
<p><b>3 Risks relating to COVID-19</b></p> <p>COVID-19 has had a significant impact on the council in the 2020/21 audit year:</p> <ul style="list-style-type: none"> <li>• <b>Financial management</b> - additional funding and expenditure. CoSLA analysis indicates that council income has</li> </ul>	<p>Throughout 2020/21, Budget Monitoring Reports have separately identified COVID costs and stripped these out of the net position. COVID costs and funding are reported each cycle to</p>	<ul style="list-style-type: none"> <li>• Establish the additional funding streams the council has received in year; what it has been spent on; the impact on outturn and reserves; and how this is</li> </ul>

increased by 9 per cent and over £1.3bn of additional support to business has been routed through Councils as a result of COVID-19.

- **Financial reporting** – The council is projecting a surplus on outturn of £1.4 million but reports a balanced position in relation to COVID-19 income and expenditure. COVID-19 may have affected bad debt experience and the position of organisations in the wider group.
- **Financial management** - The Scottish Government has allowed for flexibility to be applied to certain areas of council funding and accounting practices.
- **Financial reporting** - The Council require to make judgement on the correct accounting treatment in relation to additional funding arrangements – whether the council is acting as agent or principle.
- **Fraud and controls** - There is an increased risk of fraud for some COVID-19 related grants. Due to the nature of the schemes, there may not have been adequate consideration of internal control frameworks and the impact of remote working.
- **Group** - COVID-19 raised issues over going concern for some of the council's group bodies in 2019/20. Given the economic impact which has been felt during 2020/21, there is an increased risk to the going concern principle for some of the group components.
- **Performance** - COVID-19 grants have been disbursed at different rates across councils and there are different experiences of rejection rates.

Policy & Resources Committee.

The Council contributed to and use the CoSLA COVID grants tracker information to ensure all grants are accounted for.

Treatment of grants between Agency/Principal is being agreed at a national level and communicated via LASAAC.

The Council has been in regular contact with key Partners throughout the pandemic and provided letters of comfort where required with projected costs built into the COVID cost reporting.

The Council has complied with all Scottish Government reporting requirements.

As part of the 2020/21 Internal Audit Plan, support and assistance has been provided to Services responsible for administering COVID-19 related grants. This has included walkthroughs of the control procedures in place and sample testing of applications processed.

The Council has also participated in the 2020/21 NFI exercise in relation to business grants and matches are expected to be received by 31 March 2021. This will be reviewed by Internal Audit.

Internal Audit also participates in the Scottish Local Authority Investigators Group where shared learning and fraud intelligence alerts have taken place.

reported in financial statements.

- Review of any Scottish Government and CIPFA/LASAAC guidance on accounting.
- Discussions with management during the year to consider the accounting treatment of significant business grants and use of financial flexibilities.
- Review of disclosures and balances in annual accounts to ensure that this is consistent with any guidance issued.
- For the most significant grants (by value), establish the conditions attached and the associated controls implemented over these.
- Confirm existence and operation of these controls by completing a walkthrough.
- Review potential NFI data matches.
- Establish the impact on collection rates and assess the impact on the bad debt provision.
- Consider the impact of COVID-19 in the wider group including furlough and any issues raised by component auditors.
- Consider the impact of any increased funding by the council on classification of group components.
- Early engagement with appropriate component auditors.
- Assess any national reporting of business grant performance and discuss any issues with officers.

---

## Wider dimension risks

### 4 Financial sustainability

The council has revised its Financial Strategy to incorporate the impact of

The 2021/22 Budget was approved on 18 March 2021 with a clear

- Review the development of the two-year budget strategy.
-

COVID-19 known at that time. This forecasts a budget gap of £17 million for the three-year period to 2023/24. The Financial Strategy highlights that significant savings will need to be achieved to address funding gaps.

It is likely that there will be further cost pressures to the council on top of the immediate response to the COVID-19 crisis. There is a risk to the long-term financial sustainability of the council given the additional cost pressures.

approach for 2022/23 agreed.

The 2021/24 estimated funding gap has been reviewed and is now £9.6 million after 3% annual Council Tax increases.

The Policy & Resources Committee receives a cyclical update on COVID cost pressures and funding which runs from 2020 to 2023.

- Consider the 2021/22 revenue budget and required savings target.
- Review the financial monitoring during the year, including the use of reserves and delivery of planned savings.

Source: Audit Scotland

**7.** We have considered the risk of fraud in relation to 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, with the exception of management override above. This is on the basis of 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 Integration Joint Board, NHS boards and other 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.

**9.** 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

**10.** 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).

**11.** 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.

**12.** We will provide an independent auditor's report to Inverclyde Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of Inverclyde Council and 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	9 April 2021	27 April 2021

Management Report	4 June 2021	24 June 2021
Independent Auditor's Report	28 October 2021	28 October 2021
Annual Audit Report	28 October 2021	28 October 2021

Source: Audit Scotland

## Audit fee

**13.** The agreed audit fee for the 2020/21 audit of Inverclyde Council is £259,830 (£253,060 in 2019/20). In determining the audit fee, we have taken account of the risk exposure of Inverclyde 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 by 30 June 2021.

**14.** 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 Committee and Accountable Officer

**15.** 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.

**16.** The audit of the annual accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**17.** 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.

**18.** 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, regularity and use of resources. In doing this, we aim to support improvement and accountability.



# Audit scope and timing

## Annual accounts

**19.** 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 Inverclyde 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 the 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.

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

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

## Other information in the annual accounts

**21.** 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.

**22.** 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

**23.** 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

24. We calculate materiality at different levels as described below. The calculated materiality values for Inverclyde 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.	£3.5 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.	£1.75 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 3% of planning materiality.	£100 thousand

Source: Audit Scotland

### Timetable

25. 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	24 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for receipt of assurances from Group's Component Auditors	27 August 2021
Latest date for final clearance meeting with Section 95 Officer	8 October 2021
Agreement of audited unsigned annual report and accounts Issue of annual audit report, letter of representation and proposed independent auditor's report	15 October 2021
Consideration of audited annual accounts and audit report by those charged with governance	28 October 2021
Latest date for signing of independent auditor's report	28 October 2021

## Internal audit

**26.** Internal audit is provided by the in-house internal audit section at Inverclyde 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 (UK) 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.

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

### Using the work of internal audit

**28.** 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.

## Audit dimensions

**29.** 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

**30.** 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

**31.** 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 Inverclyde Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**32.** 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 Inverclyde 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

**33.** 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 Inverclyde 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

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

- the timely and appropriate distribution of new COVID related grants
- 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

**35.** 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.

**36.** 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:

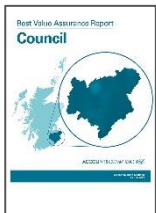
- The Annual Audit Report for each council that will provide a rounded picture of the council overall.
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

**37.** 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

---

**38.** The work planned in Inverclyde Council this year will focus on following up on the council's progress on recommendations identified in the Best Value Assurance Report published in June 2017. The results of this work will be reported in the Annual Audit Report.

## Independence and objectivity

**39.** 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.

**40.** The engagement lead (i.e. appointed auditor) for Inverclyde Council is Brian Howarth, Audit 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 Inverclyde Council.

## Quality control

**41.** 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.

**42.** 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.

**43.** 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.

# Inverclyde Council

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



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