

West Dunbartonshire Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for West Dunbartonshire Council

02 March 2022

Contents

Introduction	3
Financial statements audit planning	5
Audit dimensions and Best Value	11
Reporting arrangements, timetable, and audit fee	14
Other matters	17

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of West Dunbartonshire Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Management Commentary, Annual Governance Statement, and the Remuneration Report
- provision of an Independent Auditor's Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review West Dunbartonshire Council's arrangements for preparing and publishing statutory performance information
- review West Dunbartonshire Council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our 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. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

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

Respective responsibilities of the auditor and West Dunbartonshire Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and West Dunbartonshire Council. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and 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.

West Dunbartonshire Council responsibilities

8. West Dunbartonshire Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. West Dunbartonshire Council has 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to the impact of Covid-19. This year, 2021/22, is the final year of the current appointment and we will work with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described below. The materiality values for West Dunbartonshire Council are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for West Dunbartonshire Council

Materiality	Amount	Group
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 2022 based on the latest audited financial statements for 2020/21.	£5.117 million	£5.114 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 assessed performance materiality at 50% of planning materiality.	£2.559 million	£2.557 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.	£0.2 million	£0.2 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of West Dunbartonshire Council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals entries with a focus on significant risk areas. Evaluate significant transactions outside the normal course of business identified through audit testing of income and expenditure, accruals and cut off transactions. Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. Review accounting estimates for evidence of management bias including assessing any changes to the methods and underlying assumptions used to

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimation in the valuation of Property Plant and Equipment</p> <p>West Dunbartonshire Council's property, plant and equipment had a net book value of £1.1 billion at 31 March 2021.</p> <p>There is a significant degree of subjectivity in the valuation of this category of assets. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to financial disclosures.</p>	<ul style="list-style-type: none"> Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors 	<p>prepare accounting estimates compared to the prior year.</p> <ul style="list-style-type: none"> Review of the work of the valuer, including focused substantive testing of the classification and valuation of assets. Evaluate the competence, capabilities, and objectivity of the professional valuer. Confirm asset values in valuation certificates are fairly reflected within the 2021/22 accounts. Review the annual cycle of valuations to ensure that assets have been valued within the five-year rolling programme. Evaluate the approach taken to ensure that assets not subject to revaluation in 2021/22 are not materially misstated. Assess the adequacy disclosures in the accounts covering the valuation of the property, plant and equipment.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for West Dunbartonshire Council because, while the possibility of fraud exists, we assess the risk of the financial statements being materially misstated as a result of fraud to be low. This is due to the nature of the council's revenue streams and key sources of income, namely government grants.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for West Dunbartonshire Council, as our assessment of the council's expenditure streams, including consideration of historical instances of fraud, concludes that the risk of a material misstatement as a result of fraud to be low.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The areas of specific audit focus are:

- The pension liability valuation is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability.
- The consolidation and disclosures for the West Dunbartonshire Energy LLP company due to this being the first year of consolidation for this entity into the council's Group.

Group Consideration

20. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

21. West Dunbartonshire Council has a group which comprises component entities, including subsidiaries, associates and joint ventures. The significant components for the group comprise West Dunbartonshire Council and West Dunbartonshire Integration Joint Board. The Integration Joint Board (IJB) is identified as a joint venture and consolidated in accordance with the requirements of the Code. We have been appointed as auditor to West Dunbartonshire Integration Joint Board and will report separately on our audit of that entity.

22. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors as appropriate. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

23. Members of West Dunbartonshire Council are sole trustees for five trusts registered as Scottish charities, with net assets of £0.279 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.

24. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit.

The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

Exhibit 3

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Governance and investment documentation</p> <p>The Deed of Trust for the Dunbartonshire Educational Trust Scheme 1962 and UIE Award require to be updated.</p> <p>The governing documentation for the McAuley Prize for Mathematics is not available and a new trust deed required.</p>	<ul style="list-style-type: none"> Officers continue to work with other councils involved in these funds to reach a satisfactory conclusion. 	<ul style="list-style-type: none"> Continue to liaise with officers to establish progress with updating and replacing Deeds of Trust. Review updated Deeds of Trust. Provide an update on progress in our 2021/22 Annual Audit Report.
<p>2. Dormant Trusts</p> <p>Some of the trusts have been dormant for a number of years, with annual activity on all trusts minimal. There is a risk that the trusts are not meeting the requirement of public benefit.</p>	<ul style="list-style-type: none"> Continue to liaise with legal officers to establish progress against the plan to update and replace Deeds of Trust. 	<ul style="list-style-type: none"> Continue to liaise with officers and monitor the activity on trust funds. Provide an update on activity in 2021/22 Annual Audit Report.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

25. Planning materiality has been based on 1% of the audited 2020/21 net assets value (in 2020/21 combined net assets totalled £279,784), and performance materiality at 70% of planning materiality. Materiality levels for the charitable trusts are set out in [Exhibit 3](#).

Exhibit 4**2021/22 Materiality levels for West Dunbartonshire Council's charitable trusts**

Charitable Trust	Planning materiality	Performance materiality	Reporting threshold
Dunbartonshire Educational Trust Scheme 1962	£900	£630	£40
McAuley Prize for Mathematics	£210	£140	£10
Alexander Cameron Bequest	£1,170	£810	£50
Dr AK Glen	£240	£160	£10
UIE Award	£240	£160	£10

Audit risk assessment process

26. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.


Best Value

30. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit and reported in the annual audit report.

31. Also, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once over the period of the audit appointment. The BVAR for West Dunbartonshire Council was published in 2018. The Best Value audit work planned this year will focus on following up on the impact of the improvement actions implemented by the council in response to the recommendations in the BVAR.

32. The remaining BVARs which will be considered by the Accounts Commission by September 2022 cover the councils listed in Exhibit 5.

Exhibit 5 2022 Best Value Assurance Reports

	Comhairle nan Eilean Siar	Angus Council
	Shetland Island Council	Moray follow-up

Source: Audit Scotland

Audit dimension risks

33. We have identified audit risks in the areas set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability of services</p> <p>The council needs to demonstrate financial sustainability of its services as it faces increasing demand for services and the continuing service pressures from Covid.</p> <p>Covid-19 funding has increased the council's reserves but these will be needed to meet ongoing costs. The council is projecting funding gaps increasing to £14.355 million by 2024/25.</p>	<ul style="list-style-type: none"> Budgetary control reporting to CMT, service committees and Council) – this includes monitoring of agreed cost reductions. The council's updated long-term financial strategy, which highlights significant funding gaps. 	<ul style="list-style-type: none"> Review the council's monitoring reports against the 2021/22 budget and the long-term financial strategy. Report the outturn in our 2021/22 annual audit report. Review how the council demonstrates the long-term affordability of budget decisions, including any planned use of reserves. Ongoing assessment of the council's long-term financial strategy.
<p>2. Capital project delays</p> <p>We have previously reported on a trend of delays in capital projects and capital programme slippage. A significant underspend is forecast against the 2021/22 original capital budget for 2021/22. The majority of this is due to the impact of Covid-19 and the ongoing restrictions on capital works.</p> <p>There is a risk that the council's ability to deliver against its strategic plan is affected by the delays to completing its capital projects</p>	<ul style="list-style-type: none"> Major capital investments are monitored and reviewed regularly at the Strategic Asset Management Group and subsequently by the Performance and Monitoring Group. Progress on capital projects is reported to Council and relevant Council committees regularly. The use of the enhanced project management approach developed by the Capital Investment Team should produce better quality project plans and lower values of slippage/delay. 	<ul style="list-style-type: none"> Review the council's reports for monitoring the budget and progress with the capital programme. Report the outturn in our 2021/22 annual audit report.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

34. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

35. 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 officers to confirm factual accuracy.

36. We will provide an independent auditor's report to West Dunbartonshire Council, and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the West Dunbartonshire Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

37. [Exhibit 7](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 7

2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	02/03/2022	02/03/2022
Independent Auditor's Report	31/10/2022	To be agreed
Annual Audit Report	31/10/2022	To be agreed

Source: Audit Scotland

Timetable



38. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 8](#) that has been discussed with management.

39. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

40. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 8

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance	22 June 2022
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2022
Latest date for final clearance meeting with the Director of Finance (or equivalent)	October 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	October 2022
Agreement of audited and unsigned annual report and accounts	October 2022
Issue of Annual Audit Report to those charged with governance.	October 2022
Signed Independent Auditor's Report	To be agreed

Source: Audit Scotland

Audit fee

41. The proposed audit fee for the 2021/22 audit of West Dunbartonshire Council is £280,840 (2020/21: £276,780). In determining the audit fee, we have taken account of the risk exposure of the West Dunbartonshire Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

42. The agreed fee for the audit of the trusts registered as Scottish charities is £2,100 (audit fee also set at £2,100 in 2020/21).

43. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

44. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

45. From our initial review of the internal audit plans, we plan to consider the findings of Internal Audit across a range of work including:

- IHMS – Inventory Management
- Building Services
- Corporate Procurement – Supplier Management
- Overtime
- Employee Expenses
- Debtors

Independence and objectivity

46. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

47. The engagement lead for West Dunbartonshire Council is Fiona Mitchell-Knight, 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 West Dunbartonshire Council.

Quality control

48. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

49. 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.

50. 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.

West Dunbartonshire Council

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