

East Renfrewshire Council

Annual Audit Plan 2013/14



Prepared for East Renfrewshire Council
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in East Renfrewshire Council's financial statements. This report summarises our assessment of the key challenges and risks facing East Renfrewshire Council (the Council) and sets out the audit work that we propose to undertake in 2013/14. Our plan reflects:
 - the risks and priorities facing the Council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice
 - issues brought forward from previous audit reports.
2. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. As a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee. The Council has seven trusts with charitable status and total assets of £142k. The Assistant Auditor General wrote to local government directors of finance in June 2013 advising them of these new arrangements. Accordingly, we will perform the audit of the charitable trusts in parallel with the audit of the Council's financial statements and provide audit opinions as necessary.

Summary of planned audit activity

3. Our planned work in 2013/14 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of the Council as at 31 March 2014 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2013 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update
- a review and assessment of the Council's governance and performance arrangements in a number of key areas including: a review of selected internal control systems, the adequacy of internal audit, targeted follow up of national studies and arrangements for reporting statutory performance indicators
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements.

Responsibilities

4. The audit of the financial statements does not relieve management or the Audit and Scrutiny Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Director of Finance

7. It is the responsibility of the Head of Accountancy, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the Council as at 31 March 2014 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. The Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
- understanding the business of the Council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks 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 and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence on whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2013/14.
11. 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 early assessment of the internal audit function. Internal audit is provided by the internal audit section within the Council. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

12. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
- Council Tax - Recovery and Enforcement
 - Housing - Rent Accounting
 - Ordering & Certification
 - Payroll
 - Trade Payables
 - Trade Receivables
 - Corporate Debt Recovery
 - Asset Management
 - Housing Benefits
 - Members' Expenses
 - Inventories.
13. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- Statutory performance indicators
 - National Fraud Initiative
 - Budgetary Control.

Materiality

14. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

16. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the Council and Controller of Audit within three months of the end of the financial

year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements and planned audit and scrutiny committee dates. A more detailed timetable will be agreed with the Head of Accountancy in due course.

17. 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 responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within two weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Head of Accountancy, relevant senior manager, internal audit and Audit Scotland's Performance Audit and Best Value Group.
18. We will provide an independent auditor's report to the Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
19. Planned outputs for 2013/14 are summarised at Exhibit 1.

Exhibit 1: Planned outputs

Planned outputs	Final report issued by
Governance	
Review of adequacy of internal audit	31 March 2014
Assurance and Improvement Plan Update	16 May 2014
Internal controls management letter	30 June 2014
Performance	
Targeted follow up of performance: Major Capital Investments in Councils	30 June 2014
Financial statements	
Report to Audit and Scrutiny Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	September 2014 (date to be confirmed)
Independent auditor's report on the financial statements	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014
Audit opinion on charitable trusts	30 September 2014

Planned outputs	Final report issued by
Audit opinion on Whole of Government Accounts	3 October 2014 (tbc)
Grants	
Certification of the following grant claims and statements of expenditure: Education Maintenance Allowance; Criminal Justice in Social Work; Non Domestic Rates Income return; and, Housing Benefit subsidy.	As required by specific guidance.

Quality control

20. 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. 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 Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.
21. 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 do, however, welcome feedback at any time and this may be directed to the engagement lead, Brian Howarth.

Independence and objectivity

22. 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 Auditing Practices Board (APB) 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.
23. 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.

Audit issues and risks

Audit issues and risks

24. The annual audit plan focuses on governance and other risks which are specific to the Council's financial statements. Our Assurance and Improvement Plan for 2014-17 provides an analysis of any risks or issues relating to aspects of the Council's performance.
25. 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 your organisation. We will continue to review this as part of the 2013/14 audit.
26. **Financial Management and Sustainability:** Scotland's public bodies continue to face increasing demand and cost pressures for their services in the foreseeable future. An indicative 2014/15 budget was agreed in February 2013 which included savings measures quantified over 2 years and the 2014/15 balanced budget was then ratified at the February 2014 Council meeting. The Council has also identified a shortfall of £25.7 million over the 3 year period 2015/16 to 2017/18.
27. Our Annual Report on the Audit 2012/13 concluded that the council is relatively well placed to address the significant future financial challenges; it has high level of usable reserves compared to net revenue spend (total usable reserves as at 31 March 2013 were £45m, though the majority is in specific reserves or is earmarked, with only £9m unallocated) and has a relatively low level of net external debt compared to other Scottish councils. However, the potential for the non achievement of identified savings could have an impact on the financial position of the Council.
28. **Housing Revenue Account:** Welfare Reform is resulting in major changes to the welfare system across the UK. The Council anticipates an increase in Rent Arrears which is in part attributable to the Single Room Subsidy. The Council has increased the level of Discretionary Housing Payments and continues to engage with those affected by the changes. As part of our financial statements work we will review the level of rent arrears, debt write off and provision for irrecoverable rent debts.
29. **Council Tax Reduction Scheme:** From 1 April 2013 the Council Tax Reduction Scheme replaced council tax benefit. This change will result in changes to the financial statements as well as the former Housing Benefit/Council Tax Benefit Subsidy Claim.
30. **Risk of fraud over revenue recognition:** Auditing standard, ISA 240 identifies the auditor's responsibility to consider fraud in an audit of financial statements and presume a risk of fraud where income streams are significant. The extent and complexity of income within the council means that there is an inherent risk that income is not correctly recognised and accurately recorded.
31. **Business Continuity (ICT):** Although a Business Continuity Plan (BCP) has been prepared by the ICT department, there has been no recent review of this plan. BCPs should be subject

to regular review and testing to ensure that in the event of incident key systems can be restored, and key data will not be lost. This issue was previously intimated to management in the 2012/13 Annual Audit Plan.

32. **Carbon Allowances:** The Carbon Reduction Commitment (CRC) Energy Efficiency Scheme became operational in 2011-12, and is a mandatory emissions trading scheme that aims to reduce carbon dioxide (CO₂) emissions through energy efficiency. The Council plans to buy carbon allowances for offsetting against future years CO₂ usage and we will review the accounting treatment as part of our financial statements work.
33. **Common Good:** Recent advice by Professor Robert Rennie advised that Cowan Park, Barrhead should be classed as Common Good. LASAAC guidance states that there should be a separate fund for Common Good with separate disclosures within the financial statements. We shall review the implementation of this as part of our financial statements work.

Summary assurance plan

34. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix B. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix B. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

National performance audit studies - impact and follow up

35. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits we will review the impact of the following studies:
 - Major capital investments in Councils (March 2013).

Fees and resources

Audit fee

36. In determining the audit fee we have taken account of the risk exposure of the Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2014.
37. The agreed audit fee for the 2013/14 audit of the Council is £222,855 as summarised in Exhibit 2. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at Audit and Scrutiny Committee meetings
 - access to advice and information on relevant audit issues
 - travel and subsistence costs.

Exhibit 2: Audit fee

Description	Audit fee	Audit fee	Audit fee	Audit fee
	2010/11	2011/12	2012/13	2013/14
Total audit fee	247,600	233,900	222,855	222,855
% cash reduction on prior year	-3.1%	-5.5%	-4.7%	0
Cumulative % real reduction, including GDP deflator	-5.3%	-11.9%	-17.80%	-19.4%

38. Where our audit cannot proceed as planned through, for example, late receipt of the 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.

Audit team

39. Brian Howarth, Audit Services is your appointed auditor. The local audit team will be led by Liz Maconachie who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Appendix A - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January - April 2014
Meetings with officers to clarify expectations of detailed working papers and financial system reports	April 2014
Planned Council approval of unaudited financial statements	25 June 2014
Submission of unaudited Council financial statements with working papers package	30 June 2014
Submission of unaudited charitable trust financial statements with working papers package	30 June 2014
Progress meetings with lead officers on emerging issues	Weekly
Latest date for submission of management letter on financial statements audit	5 September 2014
Latest date for final clearance meeting with the Head of Accountancy	11 September 2014
Agreement of unsigned financial statements for Audit and Scrutiny Committee agenda, and issue of report to the Audit Committee on the audit of financial statements (ISA 260)	September 2014 (date to be confirmed)
Audit and Scrutiny Committee date	September 2014 (date to be confirmed)
Independent auditors report signed	30 September 2014
Latest date for submission of unaudited whole of government accounts to external audit	31 July 2014
Latest date for signing of WGA return	3 Oct 2014 (TBC)
Annual report to Members and the Controller of Audit	31 October 2014

Appendix B - Summary assurance plan

In this section we identify a range of risks facing East Renfrewshire Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of East Renfrewshire Council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
<p>Financial Sustainability</p> <p>Scotland's public bodies continue to face increasing demand and cost pressures for their services in the foreseeable future. An indicative 2014/15 budget was agreed in February 2013 which included savings measures quantified over 2 years. A funding shortfall of £10.8 million for the period up to 2014/15 has been identified.</p> <p><i>The potential for the non achievement of identified savings could have an impact on the financial position of the Council.</i></p>	<ul style="list-style-type: none"> • Savings of £10.6m have been agreed to address the gap. The profile of savings estimates a surplus of £1.8m in 2013/14. • Regular presentation of Revenue Budget Monitoring Reports to Cabinet. • Ongoing discussions with senior officers. 	<ul style="list-style-type: none"> • Review of detailed budget papers. • On-going discussion with council officers. • Review of achievement against savings plans. • Report within our Annual Audit Report of financial performance and financial position
<p>Housing Revenue Account:</p> <p>Welfare Reform is resulting in major changes to the welfare system across the UK. The Council anticipates an increase in Rent Arrears in part attributable to the Single Room Subsidy.</p> <p><i>The increase in rent arrears will have an affect on the</i></p>	<ul style="list-style-type: none"> • Review of the levels of rental income received. • Continued discussions with tenants affected by the changes. • Promoting the availability of Discretionary Housing Payments to affected tenants. 	<ul style="list-style-type: none"> • Ongoing discussion with Revenues and Benefit Staff. • Review of level of rent arrears, debt write off and provision for irrecoverable debts.

Risk	Source of assurance	Planned audit action
<p><i>financial position of the Housing Revenue Account.</i></p>		
<p>Council Tax Reduction Scheme</p> <p>The removal of Council Tax Benefit and the introduction of the above will have an effect on the disclosure in the Council Tax Income Account and the year end Subsidy Claim.</p> <p><i>Misstatements or disclosure errors in the financial statements.</i></p>	<ul style="list-style-type: none"> Finance staff attends annual technical accounting updates to understand changes in the Code of Practice on Local Authority Accounting. 	<ul style="list-style-type: none"> Review the Council Tax Income Account and Housing Benefits subsidy claim for correct classification and disclosure.
<p>Risk of fraud over revenue recognition</p> <p>ISA 240 requires that auditors consider the presumption that there are risks of fraud in revenue recognition.</p> <p><i>There is a risk that income is not correctly recognised and accurately recorded.</i></p>	<ul style="list-style-type: none"> Closedown procedures clearly explain work to be done on identifying all transactions for relevant accounting period. Revenue monitoring reports are presented to members and officers during the year with explanations provided on large or unusual movements. 	<ul style="list-style-type: none"> We will substantively test revenue streams to ensure that income has been completely and accurately recorded.
<p>Business Continuity (ICT):</p> <p>Although a Business Continuity Plan (BCP) has been prepared by the ICT department, there has been no recent review of this plan. BCPs should be subject to regular review and testing to ensure that in the event of an incident, key systems can be restored. This issue was previously intimated to management in the 2012/13</p>	<ul style="list-style-type: none"> The Council are currently considering Business Continuity with other councils involved in the Shared Services Programme. 	<ul style="list-style-type: none"> Review of documentation indicating the Council's preparedness. Updates from the Head of ICT to Audit.

Risk	Source of assurance	Planned audit action
<p>Annual Audit Plan.</p> <p><i>There is a risk that key systems cannot be restored following an incident, and key data will be lost.</i></p>		
<p>Carbon Allowances</p> <p>The Council is purchasing carbon allowances for use in future years.</p> <p><i>There is a risk that carbon allowances are not correctly accounted for/disclosed within the financial statements.</i></p>	<ul style="list-style-type: none"> • Council papers to Cabinet/CM.T • Ongoing discussion with Chief Accountant. 	<ul style="list-style-type: none"> • Review of Council papers. • Review as part of Financial Statements Audit.
<p>Common Good</p> <p>Cowan Park has been identified as Common Good and therefore requires separate disclosure in the financial statements.</p> <p><i>There is a risk that this is not correctly disclosed within the financial statements</i></p>	<ul style="list-style-type: none"> • Council papers to Cabinet/CMT. • Ongoing discussion with Chief Accountant. 	<ul style="list-style-type: none"> • Review of Council papers. • Review as part of Financial Statements Audit.

Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

Brian Howarth ACMA CGMA, Assistant Director

Brian has over 21 years experience of public sector audit across central government, local government, health and the further education sectors. Prior to joining Audit Scotland, Brian worked in the Scottish Office and an NDPB for 7 years. Brian also manages Audit Scotland's Business Improvement Unit, its Professional Standards Group and internal performance reporting arrangements.

Liz Maconachie CPFA BA in Accountancy, Audit Manager

Liz joined the Scottish Office in 1987 and then transferred to the Accounts Commission/Audit Scotland in 1995. She has worked in internal and external audit and has a wide range of experience covering health, local government and central government sectors.

Maria Paterson BAcc (Hons) CPFA, Senior Auditor

Maria has seventeen years experience of public sector audit including NHS, Local Authority, Passenger Transport Authority and Central Government bodies.

Jim Cumming, CEng, CITP, Senior Auditor ICT

Jim has twelve years experience of public sector ICT audit with Audit Scotland, covering local government, health, central government sectors. Prior to working for Audit Scotland, Jim spent 15 years in various IT roles including development, project management, operational and system administration roles in the engineering industry.

Gordon McAllister BA (Hons) CPFA, Auditor

Gordon joined Audit Scotland in 2009. He has a BA Hons degree in Finance and Marketing from the University of Strathclyde Business School and is a fully qualified CIPFA member. Gordon has worked on the audits of a wide range of local and central government bodies.

Andrew Kerr BA (Hons) Professional Trainee Auditor

Andrew joined Audit Scotland in 2013 as a professional trainee auditor and will work towards the ICAS professional qualification. He has a BA Hons degree in Accountancy. Andrew is involved in the audit of a number of local government and central government bodies.