

West Dunbartonshire Council

Annual Audit Plan 2013/14



Prepared for West Dunbartonshire Council
February 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 West Dunbartonshire Council's (the Council) financial statements. This report summarises our assessment of the key challenges and risks facing 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 as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
2. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, 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 eight trusts having charitable status with total assets of £336,000. The Assistant Auditor General wrote to local government directors of finance (or equivalents) in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charitable trusts. Accordingly, we will perform the audit of the council's 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. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2014/15 to 2016/17 for the Council
- a review and assessment of Council's governance and performance arrangements in a number of key areas including the review of: internal controls; the adequacy of internal audit; Statutory Performance Indicators; national study follow-up work; and ICT computer service reviews
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements
- review of local impact of national studies.

Responsibilities

4. The audit of the financial statements does not relieve management or the Audit & Performance Review 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 Head of Finance and Resources

7. It is the responsibility of the Head of Finance and Resources, 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 as to 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 2013/14 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:

- General ledger
 - Council tax recovery and enforcement
 - Treasury management
 - NDR billing
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

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 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 & Performance Review Committee dates. A more detailed timetable will be agreed with the Head of Finance and Resources 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 three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Executive Director of Corporate Services, Head of Finance and Resources 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	28 February 2014
Assurance and Improvement Plan Update (jointly prepared with other local government scrutiny bodies)	30 April 2014
Internal controls management letter	30 June 2014
Performance	
Arms length organisations: are you getting it right - follow up	30 May 2014
Major capital investment in councils - follow up	30 June 2014
Financial statements	
Report to Audit & Performance Review Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	30 September 2014
Independent auditor's report on the financial statements	30 September 2014
Audit opinions on charitable trusts	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014
Audit opinion on Whole of Government Accounts	3 October 2014 (TBC)
Grants	
Education maintenance allowance	31 July 2014
Criminal justice social work services	30 September 2014
Housing benefit subsidy	30 November 2014
Non domestic rates income return	3 February 2015

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, David McConnell.

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 the Council.

Audit issues and risks

Audit issues and risks

24. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.
25. **Managing financial pressures:** The refreshed long term financial strategy presented to the Council in October 2013 reported a cumulative budget gap for the period 2014/15 - 2016/17 of £21.69 million. In February 2014 the Council provided an updated financial position projection which took account of the Scottish Government's settlement for 2014/15 and a package of savings options prepared by the Corporate Management Team. This reduced the cumulative budget gap by 2016/17 to £16.73 million. We will continue to monitor and report on the Council's financial position and progress made delivering against agreed saving options.
26. **Clydebank Rebuilt / Clydebank Property Company:** In February 2014 the Council agreed to earmark £0.8 million of the Council's general reserves to acquire the assets of Clydebank Rebuilt. This would occur through a purchase of all the shares of its subsidiary group, the Clydebank Property Company. This is a complex transaction and, if completed by 31 March 2014, the Council need to ensure it is accounted for appropriately in the 2013/14 financial statements. The Council also need to consider their approach to the operations previously managed by Clydebank Rebuilt to ensure resource invested in them delivers value for money. We will consider these developments and their financial disclosures as part of our Financial Statements audit.
27. **Welfare reform:** The Council has arrangements in place to mitigate the impact of the Welfare Reform Act 2012. Rent arrears are not yet considered to have increased as a consequence of its implementation however not all the Welfare Reform changes have yet been implemented. Therefore there is still uncertainty over the impact of Welfare Reform on tenants' ability to pay and the wider impact of the introduction of Welfare Reform on the delivery of council services. We will continue to monitor the Council's progress in managing the impact of welfare reform.
28. **Scottish housing quality standards:** The Council have a duty to meet the Scottish Housing Quality Standards (SHQS) for all its housing stock by March 2015. A 100% stock condition survey has recently been completed. This will inform the creation of an accelerated programme of capital works which could increase the financial pressure on the housing revenue account. Delivery of these capital works requires annual rent increases of RPI plus 4.5% until 2016/17 however it is noted that the conclusions of the stock condition survey may impact on the required rent increases. We will continue to monitor the Council's progress toward achieving the SHQS by March 2015.
29. **Net debt:** In previous annual audit reports we have highlighted concerns about the Council's debt levels. We are satisfied that the Council are operating within prudential limits however net debt levels will increase as the Council look to deliver their ten year capital plan. The plan,

which requires a total of £338 million of capital investment, is to be funded principally by prudential borrowing, government grants and capital receipts. The projected prudential borrowing requirement over the ten year period is £191 million. Servicing of this additional debt will be funded from a combination of the revenue budget (£116 million) and projected revenue savings delivered by the capital projects (£75 million). There is a risk that high levels of debt servicing may have an adverse impact on the delivery of other Council initiatives. We will provide an update on the Council's debt position in the Annual Audit Report to be published in October 2014.

- 30. Capital slippage:** Capital slippage in 2012/13 totalled £36.8 million against a budgeted capital programme of £81.2 million (45.3% slippage). Capital slippage has been an area of concern for a number of years. We recognise the Council have introduced a ten year capital plan and implemented new procedures for monitoring capital programmes. It is too early to assess whether these measures have improved the delivery of capital projects. We will provide an update on the Council's capital programme in the Annual Audit Report to be published in October 2014.

Summary assurance plan

- 31.** 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

- 32.** 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:
- Health inequalities - impact report
 - Major capital investment in councils - follow up report
 - Arms length organisations: are you getting it right - follow up report

Fees and resources

Audit fee

33. 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.
34. The agreed audit fee for the 2013/14 audit of the Council is as summarised in Exhibit 2. This includes the audit of the charitable trusts. 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 & Performance Review Committee meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.

Exhibit 2: Audit fee

Description	Audit fee 2010/11	Audit fee 2011/12	Audit fee 2012/13	Audit fee 2013/14
Total audit fee	£308,470	£288,275	£274,281	£274,281
% cash reduction on prior year	-	6.5%	4.9%	0%

35. 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

36. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors; for West Dunbartonshire Council this is David McConnell.
37. The local audit team will be led by Elaine Boyd 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
Meetings with officers to clarify expectations of detailed working papers and financial system reports	31 March 2014
Testing and review of internal control systems and transactions	30 May 2014
Provision of closedown procedures to audit	30 May 2014
Planned committee approval of unaudited financial statements	25 June 2014
Latest submission of unaudited Council financial statements with working papers package	30 June 2014
Submission of unaudited charitable trust financial statements with working papers package	15 May 2014
Progress meetings with lead officers on emerging issues	Ongoing during audit process
Latest date for final clearance meeting with the Head of Finance & Resources or other senior officers	16 September 2014
Agreement of unsigned financial statements for Audit & Performance Review Committee agenda, and issue of report to the Audit & Performance Review Committee on the audit of financial statements (ISA 260)	19 September 2014
Audit & Performance Review Committee date	24 September 2014
Independent auditors report signed	30 September 2014
Latest date for submission of unaudited whole of government accounts to external audit	30 July 2014
Latest date for signing of WGA return	TBC
Annual report to Members and the Controller of Audit	31 October 2014
Certified accounts and annual report to Members and the Controller of Audit presented to the Council	29 October 2014

Appendix B - Summary assurance plan

In this section we identify a range of risks facing the 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 the 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>Managing financial pressures</p> <p>The Council may fail to deliver their agreed savings options and close their cumulative budget gap.</p>	<ul style="list-style-type: none"> • Robust budget setting and monitoring processes including regular reporting to Department Management Teams, CMT, service Committees and Council for revenue and capital budgets for General Services and Housing Revenue Account. • Monitor and report on progress in achieving agreed savings options within ongoing budgetary control processes. • Year-end review to compare with new year budget to identify options for removal of recurring cost reductions. • Produce revised Long term Financial Strategy by 30 September 2014 and on an ongoing basis. • Revenue budgets to be set in February 2015 taking account of all pressures and priorities linking to capital planning decisions. • CMT to deliver options to close the cumulative 	<ul style="list-style-type: none"> • Monitor the Council's financial position via revenue budget reports presented to full Council and meetings with officers. • Ongoing review of Council's progress delivering savings options. • Review of Council's revised long term Financial Strategy. • Report in the 2012/13 Annual Audit Report.

Risk	Source of assurance	Planned audit action
<p>Clydebank Rebuilt / Clydebank Property Company</p> <p>The Council may not achieve best value for the resource invested. The acquisition of the assets might not be appropriately disclosed in the financial statements.</p>	<p>gaps.</p> <ul style="list-style-type: none"> • Develop appropriate investment analysis to allow appropriate decision to be made around the investment option. • Take appropriate advice as to treatment of investment in financial statements. 	<ul style="list-style-type: none"> • Monitor developments in this area. • Assess disclosure during audit of 2013/14 financial statements.
<p>Welfare reform</p> <p>The Council may not effectively mitigate the impact of Welfare Reform Act 2012 on individuals directly affected and the wider delivery of council services.</p>	<ul style="list-style-type: none"> • Cross Council project board well established to lead the strategic response to the Welfare Reform changes. • Ongoing projection of impact of anticipated reforms on Council budgets. • Develop appropriate Local Support Services to provide appropriate support and advice to those impacted by Welfare Reform. • Ongoing review of position as welfare reform changes are implemented and consideration of impact on demand for services. • Provide appropriate Housing options support for Council tenants affected by Welfare Reform. • Monitor wider impacts of Welfare Reform and advise Members of options to support affected residents. 	<ul style="list-style-type: none"> • Monitor impact of welfare reform and maintain a watching brief over developments through minute review and meetings with relevant Council officers. • Report in the 2013/14 Annual Audit Report.

Risk	Source of assurance	Planned audit action
	<ul style="list-style-type: none"> • HRA capital investment plans will consider the mix of council housing provision. • Pressures on homeless services will be monitored. Council has agreed a plan to provide appropriate types of accommodation. 	
<p>Scottish housing quality standards</p> <p>The Council may fail to meet the SHQS by 2015 and rent increases may lead to a rise in rent arrears.</p>	<ul style="list-style-type: none"> • Current rate of compliance is 77% and compliance progress reported in annual. • The ongoing focused investment programme will ensure that the SHQS is met by 31st March 2015 within all viable Council housing stock. • 100% Stock Condition Survey outcomes will be used to refine the investment programme to ensure compliance. • Appropriate financial planning and modelling work will be undertaken on an ongoing basis to reflect on variables that impact on rent levels and affordability, including outcome of stock condition survey. 	<ul style="list-style-type: none"> • Monitor progress toward meeting the SHQS and the impact on rent arrears in conjunction with the Scottish Housing Regulator. • Report in the 2013/14 Annual Audit Report.
<p>Net debt</p> <p>High levels of debt servicing may have an adverse impact on the delivery of Council initiatives.</p>	<ul style="list-style-type: none"> • An annual update of the Capital Plan will be presented to Council in February 2015 for consideration of the cost of funding and priorities in relation to any revenue implications – with direct 	<ul style="list-style-type: none"> • Review the Council's net debt as at 31 March 2014 and the impact of servicing the debt on the revenue account. • Report in the 2013/14 Annual Audit Report.

Risk	Source of assurance	Planned audit action
	linkage to the planning and setting of revenue budgets also considered by Council in February 2015 and annually.	
<p>Capital slippage</p> <p>Future capital programmes and associated service improvements may not be delivered in a timely manner.</p>	<ul style="list-style-type: none"> • Capital monitoring information is provided to CMT and Members on a regular basis. • Options for re-profiling spend to reduce slippage will be generated and considered for implementation as appropriate. • Additional resources are in place with named dedicated project managers for major capital projects and strengthened the legal and procurement teams to avoid delays during pre construction. • Capital spend is monitored on a monthly basis and the Strategic Asset Monitoring Group meets bi monthly to scrutinise the capital programme. 	<ul style="list-style-type: none"> • Monitor capital expenditure through capital monitoring reports provided to CMT and Members. • Report in the 2013/14 Annual Audit Report.

Appendix C - Audit team

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

David McConnell MA CPFA

Assistant Director of Audit Services (certifying auditor)

David has worked in public sector audit since 1981, firstly with the National Audit Office and, since 1985, with the Accounts Commission/Audit Scotland. He therefore has extensive experience of audit in Central Government, Local Government and the NHS. David is currently Audit Scotland's lead on workforce planning and resource management issues.

Elaine Boyd FCCA

Senior Audit Manager

Elaine has twelve years experience of public sector audit with Audit Scotland, covering local government, health and central government. Prior to this, Elaine spent seven years in a financial management and audit role within the public sector and seven years in private practice.

Laurence Slavin CPFA

Senior Auditor

Laurence has ten years experience of public sector audit with Audit Scotland, covering local government, health and education. Prior to this Laurence spent seven years in an IT audit role within the private practice and gained experience both in an audit capacity and as a consultant on large scale IT projects.

Ian Docherty

Professional Trainee

Ian joined Audit Scotland in 2011 as a professional trainee and commenced studying for the Institute of Chartered Accountant of Scotland qualification in September 2012.

Jim Cumming

Senior Auditor (ICT)

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