



REPORT TO AUDIT COMMITTEE – 1 NOVEMBER 2018

EXTERNAL AUDIT – AUDIT PLANNING CONSIDERATIONS - 2018/19 AUDIT

1 Recommendation

1.1 The Committee is recommended to discuss and note this paper.

2 Background / Discussion

2.1 In advance of the external auditor's audit plan for the 2018/19 financial year, the attached paper is intended to provide the committee with background information on the scope of the annual external audit process and offer members a useful context for considering the audit plan in due course. This will be the third year of Audit Scotland's five year audit appointment.

2.2 The Committee is asked to consider the paper attached as appendix 1. The auditor would welcome feedback on any aspect of the paper and where appropriate, to hear if members would like more information in future on the audit approach proposed for individual pieces of work. An increased understanding of the conduct and scope of audits may assist the committee when considering the adequacy of action proposed in response to audit findings. Feedback will be considered by the auditor when preparing the annual audit plan which will be considered by the committee in early 2019.

2.3 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3 Scheme of Governance

3.1 The Committee is able to consider/comment on this item in terms of Section G.1.5 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to the Council's relationship with its external auditors.

4 Equalities, Staffing and Financial Implications

4.1 An equality impact assessment is not required because this report informs the Committee of the planned scrutiny activity to be carried out by audit and inspection bodies and does not have a differential impact on any of the protected groups.

4.2 There are no staffing and financial implications as a direct result of this report.

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Director of Business Services

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9 October 2018

Aberdeenshire Council

**Audit Planning Considerations
2018/19 Audit**



 **AUDIT SCOTLAND**

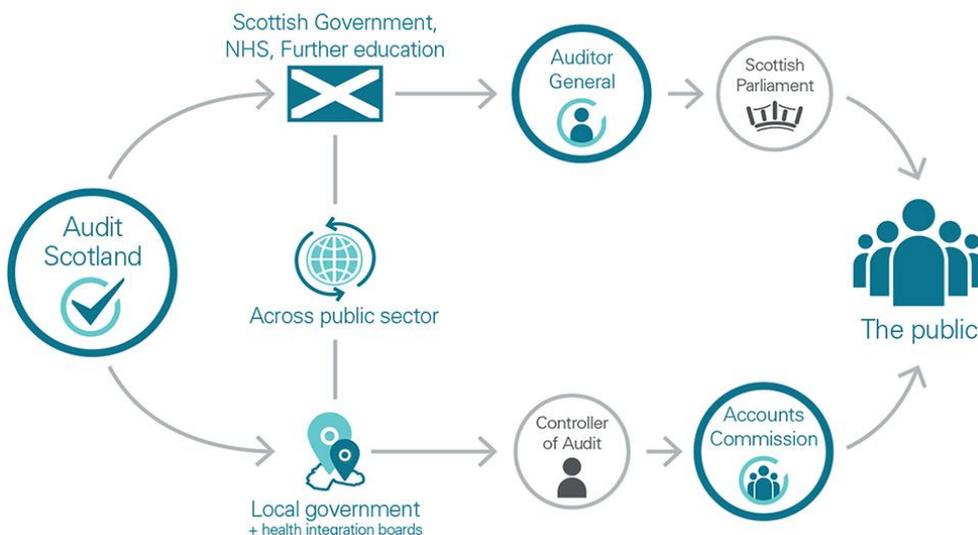
Prepared for Aberdeenshire Council Audit Committee

1 November 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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2018/19 local audit planning considerations

Introduction

1. We will shortly commence planning for the 2018/19 audit of Aberdeenshire Council. This will be year 3 of our 5 year audit appointment. In line with previous practice, our annual audit plan will be submitted to the Audit Committee early in 2019. In advance of that, the committee may find it useful to have a fuller understanding of the external audit framework.
2. Audit Scotland's *Code of Audit Practice* sets out our roles and responsibilities in relation to the work we carry out in providing an opinion on the financial statements and related matters, and meeting the wider scope requirements of public sector audit.
3. In addition, we have a number of other responsibilities at the request of the Scottish Government and partnership arrangements we have in place with other bodies such as the Department for Work and Pensions or the Cabinet Office.

The financial framework for the preparation and audit of financial statements

4. The Local Authority Accounts (Scotland) Regulations 2014 set out significant statutory responsibilities for councils and their audit committees in respect of their annual accounts and governance arrangements. The regulations include the following requirements:
 - A local authority **MUST** conduct an annual review of the effectiveness of its internal controls. The findings from such a review **MUST** be considered by the audit committee (or equivalent) before approving an annual governance statement.
 - A local authority **MUST** operate an internal audit service in accordance with recognised standards and practices. The local authority **MUST** assess the efficiency and effectiveness of its internal audit service and the findings should be considered as part of the review of internal controls.
 - The local authority **MUST** submit its annual accounts to the auditor by 30 June each year and the audit committee (or equivalent) **MUST** meet to consider the unaudited accounts by 31 August.
 - The local authority **MUST** meet to consider the audited annual accounts and aim to approve them for signature no later than 30 September

Financial statements

5. A significant element of the annual audit is our opinion on the council's financial statements. Our methodologies and programmes of related audit work have been developed to support us in gathering sufficient assurances about the figures contained in the accounts. This should ensure that we are well placed to demonstrate compliance with International Standards on Auditing (ISAs).

6. Local government accounts require to be prepared in accordance with CIPFA's Code of Practice for Local Authority Accounting in the UK. Informed by developments in international accounting standards, the Code is updated annually. From time to time, there are fundamental changes in the Code which have significant resource implications for both finance and audit to ensure the new requirements are implemented correctly.

7. An important change is coming in 2019/20, when councils will be required to implement the requirements of IFRS 16 on leases. Historically, the accounting requirement has been for the council to disclose the amount of its lease commitments by way of a note to the accounts. From 2019/20, councils need to identify assets contained within their lease arrangements and where appropriate, include a value to recognise both the right-of-use asset and the lease liability within the accounts. This is generally expected to be a significant undertaking for councils and therefore arrangements should be put in place at an early stage to consider the necessary preparations. In terms of context, the council had operating lease commitments of £11m at 31 March 2018.

8. In 2018/19, we propose to :

- While we provide an audit opinion on the accounts each year, we continue to build our intelligence and understanding of the council as the audit appointment progresses. We aim to continue to improve our understanding of the audit trails between the financial ledger and the annual accounts with a view to streamlining our audit process in this area.
- Review the arrangements being put in place by the council in preparation for the implementation of IFRS 16 on leases.
- Consider the appropriateness of the accounting for 'special' projects such as the Aberdeen Western Peripheral route and city region deal initiatives.
- Gather assurances that internal controls across key financial systems continue to operate as expected.
- Follow up progress in implementing our 2017/18 recommendations which included the need to review and implement revised authorisation levels for officers who have authority to pay supplier invoices. We had found that staff were approving invoices for amounts they did not have authority to approve. In our view, this increases the risk of fraud.
- In 2016/17, we had concerns about the limited number of properties which were physically inspected as part of council's annual programme of asset revaluation. In 2018/19, we expect to view the outcome of a revised approach to physical inspection of property assets.

Audit dimensions

9. As a reminder, our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

10. As a matter of routine, we consider:

- the council's financial sustainability in the longer term.
- 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 the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

11. Potential areas of interest for the 2018/19 Audit

- the council's policy around the level of its free working balance, management of earmarked balances and the planned and unplanned use of reserves is an area we comment on each year. We have a particular interest in transparency of reporting, and while the reasons for earmarking balances are generally clear, the audit trail around their use or decisions to reverse the need to hold certain balances can be less clear. We flagged this as an action in our 2017/18 report and will be seeking to better understand the systems and processes in place around the management of earmarked balances.
- review the management of the council's capital programme. In particular, consider some examples of business cases and assess the use made of options appraisal, the extent of the assessment of risk undertaken in

respect of these projects and the robustness of information considered by elected members to ensure audits trails exist to demonstrate (where appropriate) an agreed understanding/acceptance of the levels of risk borne by the council and decisions actually taken.

Financial management

12. As a matter of routine, we consider:

- arrangements in place to ensure systems of internal control are operating effectively – our judgements in this area are based on a range of evidence gathered across the year including our consideration of key financial systems, the work of internal audit, review of council and management team agendas and papers etc.
- how effective the budgetary control system is in communicating accurate and timely financial performance
- the arrangements for the prevention and detection of fraud and corruption.

13. Potential areas of interest for the 2018/19 Audit

- We will review progress on the implementation of 2017/18 recommendations to strengthen the council's arrangements for managing conflicts of interest and introducing a central register to record whistle blowing cases. There is also an outstanding recommendation from 2016/17 for the council to refresh and relaunch its counter fraud policy.

Governance and transparency

14. As a matter of routine, we consider:

- The level of scrutiny and challenge carried out by the council including the effectiveness of the audit committee and wider scrutiny arrangements. Our work includes regular review of council agenda papers and attendance at meetings to observe conduct, robustness of scrutiny and decisions made.
- transparency of decision making including the adequacy of information contained within finance and performance reports
- there is quality and timeliness of financial and performance reporting
- the content and process supporting the preparation of the council's annual governance statement

15. Potential areas of interest for the 2018/19 Audit

- Following the implementation of a revised code of governance and an annual self-evaluation process, we will review the outcome of the 2018/19 self-evaluation against the requirements of the CIPFA/SOLACE Delivering Good Governance Framework.
- The new scheme of governance changed the council's roles and responsibilities in respect of budget monitoring. In addition, the culture and sport business unit is considering different ways of working. In order to support the changing needs of committees, the finance team is considering alternative tools to make information more easily available. We aim to stay in touch with developments and monitor their effectiveness in terms of quality, timeliness and transparency of information.

Value for money

16. In considering Value for money, we aim to consider how the council demonstrates (1) its effective use of resources and (2) actions taken to monitor and improve service performance.

17. As part of our Best value focus this year, we plan to examine the module covering 'performance, outcomes and improvement'. We recognise that it has taken the council some time to develop performance measures to demonstrate progress against its strategic priorities. With the first round of performance measures expected to be considered by council in February 2019, this will probably mean that we will delay any detailed review of the information until year 4 of the audit appointment.

18. Our approach in 2018/19 will therefore focus on service performance rather than strategic priorities. Possible lines of enquiry may include:

- How is the council considering the longer term sustainability of services?
- Is the council aware of the performance of its services relative to other councils and is this a driver for improvement?
- Is customer feedback and the council's complaints system routinely used to encourage improvement?
- Is there robust scrutiny and challenge of service performance and evidence of action to support improvement?

19. Potential areas of interest under our wider scope consideration of value for money include:

- an improved understanding of the CareFirst system
- the council's approach to workforce planning
- consideration of the Energy from Waste business case and risk assessment
- development of the culture and sport business unit
- preparedness for Brexit

Other work

20. Local auditors are required to certify a number of approved grant claims each year. These include the Education Maintenance Allowance claim and the Housing Benefits Subsidy claim.

21. Auditors monitor audited bodies' participation in the National Fraud Initiative. This is a national data matching exercise carried out every two years. Participating bodies are required to submit data and then receive matches for investigation. The exercise is being conducted in 2018/19. Bodies are expected to submit data in October 2018 and will receive matches for review in January 2019.

Accounts Commission direction

22. While all local government audit activity is carried out on behalf of the Accounts Commission, local audit activity is channelled to the commission via the Controller of Audit. Key findings and high level messages are brought together annually within the local government overview (LGO) report.

Exhibit 2

What the Local Government Overview Report may focus on in 2018

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- continued story on the development of Local Government Benchmarking Framework (LGBF) and what it tells us about local government services, and the impact on them of funding pressures
 - a more in-depth look at one or more areas of service performance, by taking a deeper dive into LGBF and other data available.
 - how councils are continuing to respond to reducing finances e.g. the scope of financial strategies, funding gaps, fees and charges and maximising income
 - the continuing story of transformation
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23. In addition, the commission leads a national study programme and is responsible for the Best Value audit approach.

24. A new approach to auditing Best Value in councils was agreed in June 2016. Local auditors consider different best value characteristics each year with an intention to cover them all over the 5 year appointment. In addition, a Best Value Assurance Report will be published for each council at least once during the 5 year appointment. The Controller of Audit brings together key messages from all best value activity during the year in his Annual Assurance and Risks Report. His first report was published at the beginning of 2018 and was shared with the council's Audit Committee.

25. The Accounts Commission's overall aim is to hold councils to account for their pace, depth and continuity of improvement facilitated by effective governance. It also set out five strategic audit priorities in its 2018-23 strategy. These are listed in Exhibit 3. Auditors are expected to consider these priorities in all work across local government.

Exhibit 3

Accounts Commission's strategic audit priorities

- Having clear priorities with a focus on outcomes, supported by effective long term planning
- Demonstrating the effective appraisal of options for changing how services are delivered in line with their priorities
- Ensuring that members and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future
- Empower local communities and involving them in the design and delivery of local services and planning for their local area
- Reporting the council's performance in a way that enhances accountability to citizens and communities, helping them contribute better to the delivery of improved outcomes

26. Audit Scotland has a five-year rolling national study programme which reflects the strategic priorities of the Accounts Commission and the Auditor General as well as the key risks and opportunities facing the wider public sector.

27. Exhibit 4 sets out the reports which are scheduled for publication during 2018/19 and 2019/20 which may require local audit work.

Exhibit 4

Planned National Study Programme

| Planned report | Audit work | Scope of study |
|--|-------------|--|
| City Deals | Autumn 2019 | The development of City Deals to date especially in relation to the establishment of governance and project management arrangements |
| Digital progress in local government | Spring 2020 | Whether councils are making best use of digital technologies and methods to transform services and improve outcomes for citizens. |
| Educational outcomes | Winter 2019 | Review trends in educational outcomes and spending across Scotland and assess the impact of actions by the Scottish Government and councils to improve outcomes. There will also be a follow up of recommendations made in the 2014 report. |
| Value for money of non-profit distributing (NPD) models of capital finance | Tbc | The audit will use a case study approach to assess whether NPF has achieved its aim of curtailing excessive private sector profits. It will also assess the impact of developments such as the Office for National Statistics decision to classify NPD projects such as the Aberdeen Western Peripheral Route as being subject to public sector control. |
| Waste management | Tbc | Assess how well Scotland is performing in meeting its current and future waste management targets. It will consider the level of investment in new waste management facilities and the impact of the Scottish Landfill Tax on the levels of waste sent to land fill. |