

Argyll and Bute Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for by Argyll and Bute Council

March 2020

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to Argyll and Bute Council (the 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 the Council promote improved standards of governance, better management and decision making and more effective use of resources. For example, we have already provided feedback to the Head of Financial Services on proposals for re-profiling loan fund payments.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the Council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
1 Management override of controls Auditing Standards require that audit work is planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to fraudulently misrepresent the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> Detailed testing of journal entries focussing on authorisation and approval. Review of accounting estimates and evaluation of the impact of any variability in key assumptions. Focussed testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business. Year-end cut-off testing.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>The Council incurs significant expenditure on a range of activities. The extent of expenditure means there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>Clear schemes of delegation and authorisation limits, separation of duties and f duties and workflow associated with expenditure.</p> <p>A sound system of budgetary control is in place. This includes regular budget monitoring reports being provided to members.</p> <p>The internal audit plan includes a programme of continuous testing across expenditure systems.</p>	<ul style="list-style-type: none"> We will carry out testing and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. Analytical procedures on expenditure transactions. Year-end cut-off testing.
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement or valuation of the following material account areas:</p> <ul style="list-style-type: none"> - Non-current asset valuations are significant estimates, based on specialist and management assumptions - Provisions (including equal pay claims) - Pension liabilities: The council's share of the Strathclyde Pension Fund net liability at 31 March 2019 was £113.768 million. This value is an estimate based on a number of assumptions - Loans fund repayments /borrowings: loans fund advance repayments are being rescheduled based on an average useful life for underlying assets, rather than on actual useful lives for the specific assets. The results from applying the revised basis are revenue savings of c£2.5m pa for the ten 	<p>Any significant estimates and judgements are clearly explained in the Notes to the Accounts.</p> <p>Non-current assets are professionally valued by Royal Institute of Chartered Surveyors (RICS) qualified surveyors in accordance with instructions issued by the Council.</p> <p>Provisions are reviewed by finance officers in consultation with the council's legal service.</p> <p>Pension liabilities are derived from valuation calculations prepared by actuaries appointed by Strathclyde Pension Fund.</p> <p>Capital Finance and Accounting Regulations 2016 allow local authorities to vary periods or amounts of repayments if considered prudent.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of management's expert' for the internal professional valuer. Review of revaluations carried out, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals. Confirm non-current asset revaluations in surveyor's report are correctly reflected within the 2019/20 accounts. Work to assess the reasonableness of the valuations in the surveyor's report. Completion of 'review of the work of management's expert' for actuary. Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts. Review and assess the reasonableness of actuary's valuations and assumptions. Assess the reasonableness of judgements and estimates applied in rescheduling loans fund advance repayments.

 Audit Risk	Source of assurance	Planned audit work
<p>years from 2019/20, and a one off reprofiling gain of £20.5m.</p> <p>The subjectivity of each of these areas of estimation or judgement presents an increased risk of misstatement in the financial statements.</p>		
Wider dimension risks		
<p>4 Financial sustainability – budget gap</p> <p>Councils continue to face significant financial challenges with pressures on funding and increasing demand for services.</p> <p>As at February 2020, the Council's budget estimates are for a mid-range budget gap of £5.014 million for 2021/22, rising to £12.907 million by end of 2022/23, with a balanced budget position for 2020/21, after recognition of all agreed, and estimated, measures available. Beyond this there remain significant budget gaps in future years.</p> <p>This represents a financial sustainability risk for the council as the level of necessary budget savings may adversely affect the level and quality of service provision.</p>	<p>Continued delivery of savings options which align available budget with the council's priorities.</p> <p>Regular monitoring and reporting on the delivery of savings options.</p> <p>Medium to long term financial strategy already in place will be further developed.</p>	<ul style="list-style-type: none"> Review of the council's annual budget setting arrangements. Assessment of the council's medium to long term financial strategy. Review and assessment of budget monitoring arrangements with a focus on reports to senior officers and members on financial position. On-going review of the council's financial position and delivery of planned savings.
<p>5 Financial sustainability- savings plans</p> <p>As at February 2020, a potential shortfall in savings, planned for 2019/20, of £0.555m had been identified.</p> <p>There is a risk that future planned savings and budget balance will become increasingly more difficult to deliver.</p>	<p>Transformation Board continuing to oversee the implementation of savings options, while exploring shared services and other alternative service delivery models.</p> <p>Structured programme of service redesign, with a focus on greater digital transformation and commercialisation.</p>	<ul style="list-style-type: none"> Appraise savings plans and assess whether they are realistic and achievable. Comment on progress in delivering identified operational and policy savings options.
<p>6 Financial management – impact of Integration Joint Board overspend</p> <p>The most recent budget monitoring report to members in February 2020 shows a projected overspend of £1.310 million for social work services commissioned by Argyll and Bute Integration Joint Board (IJB).</p> <p>The latest IJB financial recovery plan has identified further savings options,</p>	<p>Written assurances from HSCP Chief Officer confirming emergency financial controls in place.</p>	<ul style="list-style-type: none"> Review and assess recovery actions being taken by the Council to reduce overspends within Social Services.

 Audit Risk	Source of assurance	Planned audit work
however, it still seems likely that the outturn noted above will not be significantly improved by year end.		
There is a risk that services cannot continue to be fully provided on behalf of the IJB within the council's budget, without adverse impact on Council General Fund contingency reserves.		
<p>7 Governance – Internal Auditor independence</p> <p>From January 2020, until potentially end of June 2020, the Chief Internal Auditor (CIA) has taken on some of the responsibilities of the Head of Financial Services, who is acting as Executive Director on an interim basis.</p> <p>There is a risk of the CIA's independence being compromised by these arrangements, and of the Internal Audit Plan 2019/20 not being completed.</p>	<p>Head of Financial Services will retain the role of S.95 Officer throughout the period of these arrangements.</p> <p>Measures in place to manage any potential conflicts of interest, including possible review of internal audit assignments by a chief internal auditor from another council, if considered necessary.</p> <p>Options for backfilling the CIA's time will be considered if deemed necessary.</p>	<ul style="list-style-type: none"> Review and assess practical operation of the arrangements put in place to mitigate risk to CIA independence.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. We have rebutted the risk of material misstatement caused by fraud in income recognition for 2019/20, because a significant element of the Council's income is from central government grant, council tax and NDR, all of which have predictable income patterns which limits the potential for manipulation. We therefore do not incorporate specific work into our audit plan in this area, over and above our standard fraud procedures.

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

7. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

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

Exhibit 2

2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 March 2020	17 March 2020
Management Report	9 June 2020	16 June 2020
Independent Auditor's Report (proposed)	15 September 2020	22 September 2020
Annual Audit Report	15 September 2020	22 September 2020

Source: Audit Scotland

9. In addition to the above outputs we also audit several grant claims which have specified certification dates. These are the Education Maintenance Allowance (31 July 2020); Non-Domestic Rates (9 October 2020) and Housing Benefits Subsidy (30 November 2020). We have planned our audit work to ensure that these grant claims are signed off by the required dates.

The audit of trusts registered as Scottish charities

10. Members of Argyll and Bute Council are sole trustees for seven trusts and one common good fund, registered as Scottish charities, with total assets of some £7.139 million as at 31 March 2019. 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

11. 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 register charity where members of the Council are sole trustees, irrespective of the size of the charity.

Audit fee

12. The agreed audit fee for the 2019/20 audit of the Council is £263,220 (£258,050 in 2018/19). This includes £3,650 (£3,500 in 2018/19) for the audit of the Council's charitable trusts. In determining the audit fee, we have taken account of the risk exposure of the Council, the planned management assurances in place and the extent to which we can use the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package by 26 June 2020.

13. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual accounts or being unable to make use of planned internal audit work, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

14. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

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

Appointed auditor

16. Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

17. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

18. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended, in accordance with applicable law and the 2019/20 Code;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



Statutory other information in the annual account

20. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

21. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

22. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

23. The materiality values for the Council are set out in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality	Amount
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 1.5% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2019.	£6.242 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 set performance materiality at 60% of planning materiality.	£3.745 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.	£0.100 million

Source: Audit Scotland

Timetable

- 24.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

Key stage	Date
Consideration of unaudited annual report and accounts by those charged with governance	16 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package by the council to the auditor	26 June 2020
Latest date for receipt of assurances from Group Component Auditors	31 August 2020
Latest date for final clearance meeting with Head of Financial Services	8 September 2020
Issue of Letter of Representation and proposed independent auditor's report	22 September 2020
Agreement of audited unsigned annual report and accounts	22 September 2020
Issue of Annual Audit Report to those charged with governance	22 September 2020
Independent auditor's report signed by Audit Scotland	By 30 September 2020
Latest date for signing of WGA return	By 30 September 2020

Internal audit

- 25.** Audit Scotland's Code of Audit Practice recognises the importance of internal and external auditors working together closely to make best use of available audit

resources and avoid duplication of effort. We will consider the findings from internal audit work to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

26. Internal audit's plans include testing of the council's main financial systems as part of a continuous programme of testing of financial controls. We will take account of their findings when determining sample sizes for our substantive testing of financial transactions. Also, we will review internal audit's arrangements for supporting the annual governance statement reported in the annual accounts.

27. In terms of our wider dimension responsibilities we plan to consider other areas of internal audit work including;

- Risk Management
- Following the Public Pound
- Business Continuity Planning
- Information Asset Management
- Cyber Security.

Audit dimensions

28. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

29. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

30. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

Financial sustainability

31. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial

sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

32. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control system in communicating accurate and timely financial performance can be demonstrated
- how the Council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

33. Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Council can demonstrate that the governance arrangements in place are appropriate and operating effectively including services delivered by, or in partnership with, others such as ALEOs
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

35. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided

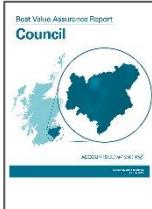
with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

36. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

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

37. The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

Exhibit 6 2019/20 Best Value Assurance Reports

	Aberdeenshire Council Argyll and Bute Council City of Edinburgh Council North Ayrshire Council	Dundee Council Falkirk Council Moray Council
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Source: Audit Scotland

38. During 2019/20, a Best Value review of the council will be completed. The work has focused on the council's arrangements for demonstrating Best Value by reviewing the following:

- The council's vision and strategic direction
- Outcomes/performance and the reporting of these, including the council's public performance reporting
- Financial planning, workforce planning and digital agenda
- Partnership and collaborative working
- Community planning and engagement
- Continuous improvement, including progress with the council's transformation programme.

39. This work will contribute to our conclusions on the audit dimensions that we report in our 2019/20 Annual Audit Report.

Independence and objectivity

40. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

41. The engagement lead (i.e. appointed auditor) for the Council is John Cornett, Audit Director (Audit Scotland’s Audit Services Group). Auditing and ethical standards require the appointed auditor John Cornett 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.

Quality control

42. International Standard on Quality Control (UK) 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.

43. 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.

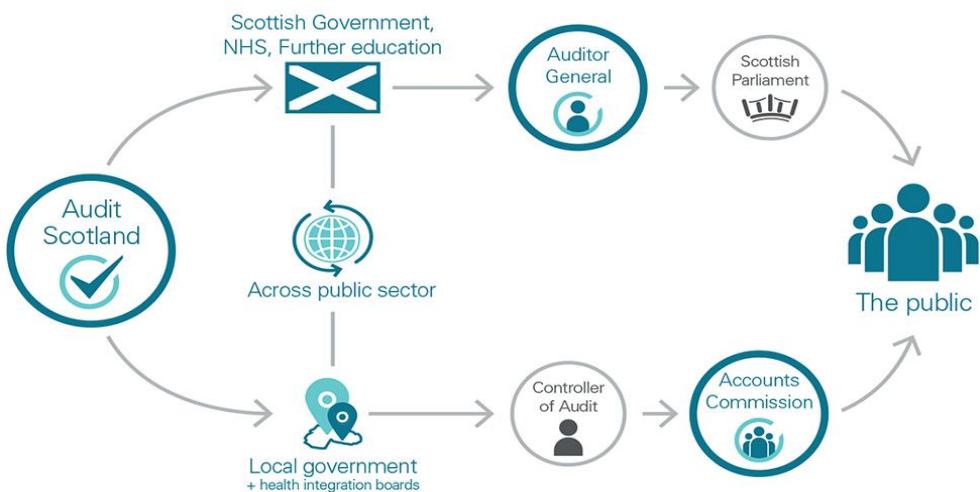
44. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1

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.

Argyll and Bute Council

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