

# Comhairle nan Eilean Siar

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Comhairle nan Eilean Siar  
March 2022

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Comhairle nan Eilean Siar. The main elements of our work include:

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

## Impact of Covid-19

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

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to the Comhairle 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 will help Comhairle nan Eilean Siar promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Scrutiny Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Comhairle nan Eilean Siar

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Comhairle nan Eilean Siar. Key responsibilities are summarised below.

### Auditor responsibilities

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

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

### Comhairle nan Eilean Siar responsibilities

8. The Comhairle is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the Comhairle has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

## Managing the transition to 2022/23 audits

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

# Financial statements audit planning

## Materiality

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

### Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Comhairle nan Eilean Siar are set out below.

## Exhibit 1

### 2021/22 Materiality levels for Comhairle nan Eilean Siar

| Materiality  | Amount       | Group        |
|--|--------------|--------------|
| <b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.   | £1.9 million | £1.9 million |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality. | £1.2 million | £1.2 million |
| <b>Reporting threshold (clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 4% of planning materiality and rounded to a memorable metric.  | £80,000      | £80,000      |

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

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

### Exhibit 2

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

| Significant risk of material misstatement   | Sources of assurance  | Planned audit response  |
|---|---|---|
| <p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p> | <ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas and transactions with related parties.</li> <li>Consider the need to test journal entries and other adjustments during the period.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Variance analysis of balances and transactions in current and prior year accounts</li> <li>We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> </ul> |

| Significant risk of material misstatement   | Sources of assurance  | Planned audit response  |
|---|---|---|
| <p><b>2. Estimation in the valuation of land and buildings.</b></p> <p>The Comhairle held land and buildings with a NBV of £208 million at 31 March 2021. Land and buildings are revalued on a five-year rolling basis.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>A new valuer was appointed from 2021/22.</p> <p>There is a risk that valuations will change significantly in 2021/22 and create material uncertainty over assets not subject to revaluation.</p> | <p>The Comhairle has clearly defined procedures in place, including the use of experts to make significant estimations and judgements.</p> <p>All estimations and valuations are reviewed by qualified finance staff.</p> | <ul style="list-style-type: none"> <li>• Focussed testing of accounting accruals and prepayments</li> <li>• Review the information provided to the external valuer to assess for completeness.</li> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Complete a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</li> <li>• Review of reports from the valuer to confirm overall asset valuation movements.</li> <li>• Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Examine management's assessment of any assets not revalued in 2021/22 against evidence of changes in other revalued assets.</li> <li>• Test the reconciliation between the financial ledger and the property asset register.</li> <li>• Sample testing of individual asset valuations and lives</li> </ul> |

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud in the recognition of revenue. We have considered the risk of fraud over income recognition (ISA 240). We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of external fraud (in accordance with Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)).

16. We have rebutted the presumption that a material risk exists, with the exception of management override, as noted above. This is on the basis that

- There are generally no incentives for staff to commit fraudulent financial reporting
- Most income is provided by the Scottish Government and other public bodies and is easily verified
- Most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management or board approval required for material transactions
- Evidence of external fraud from the National Fraud Initiative does not indicate material risks
- Experience in the sector and of the audit of Comhairle nan Eilean Siar, including a review of past misstatements.

17. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### Other areas of audit focus

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

19. The areas of specific audit focus are:

- Valuation of the present value of promised retirement benefits and the Comhairle's share of the pension asset/liability of Highland Pension Fund. We will consider the reasonableness of actuarial estimates on material elements of the valuation and the accuracy of information provided to the actuary by the Comhairle.

### Group Consideration

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

21. The Comhairle has a group which comprises component entities, including the Western Isles Integration Joint Board (the IJB) as a joint venture. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information

of the components on which to base our group audit opinion.

### **Audit risk assessment process**

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

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# Audit dimensions and Best Value

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## Introduction

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

## Audit dimensions

24. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual

audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Best Value

26. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. This year we will be undertaking a Best Value Audit Review in Comhairle ana Eilean Siar.

27. The BVAR team met with the Comhairle's Corporate Management team (CMT) in February and the scope of this work has been agreed with both management and the Controller of Audit.

28. Field work is now under way, and we plan to present our final report to the Accounts Commission in September 2022.

## Audit dimension risks

29. We have not identified any audit risks in respect of our wider dimensions work.

30. We will follow up on the recommendations we made in our 2020/21 Annual Audit Report and report progress in delivering agreed actions in our 2021/22 Annual Audit Report.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

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

34. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19. The Audit and Risk Committee meeting date in October 2022 has yet to be confirmed.

## Exhibit 5 2020/21 Audit outputs

| Audit Output                 | Target date | Audit and Risk Committee Date |
|------------------------------|-------------|-------------------------------|
| Annual Audit Plan            | 31/3/2022   | 28/6/2022                     |
| Independent Auditor's Report | 31/10/2022  | TBC                           |
| Annual Audit Report          | 31/10/2022  | TBC                           |

Source: Audit Scotland

## Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

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

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

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### Exhibit 6 Proposed annual report and accounts timetable

|  Key stage                            |  Provisional Date |
|--|--|
| Consideration of the unaudited annual report and accounts by those charged with governance                               | 28 June 2022   |
| Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package. | 30 June 2022   |
| Latest date for final clearance meeting with the Director for Assets, Finance and Resources                              | 7 October 2022   |
| Issue of Letter of Representation and proposed Independent Auditor's Report  | 14 October 2022  |
| Agreement of audited and unsigned annual report and accounts   | October 2022 (TBC)   |
| Issue of Annual Audit Report to those charged with governance.   | October 2022 (TBC)   |
| Signed Independent Auditor's Report  | 31 October 2022  |

Source: Audit Scotland

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## Audit fee

38. The proposed audit fee for the 2021/22 audit of the Comhairle is £212,960 (2020/21: £208,330). In determining the audit fee, we have taken account of the risk exposure of the Comhairle, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

39. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

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

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

41. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities but will place reliance on prior year controls testing including that carried out by internal audit. We will consider the findings of Internal Audit across a range of work in relation to our wider code responsibilities including:

- Long-term Financial planning - Strategy
- Workforce planning
- Capital contracts and project management - Goathill
- Statutory performance Indicators and external audit liaison
- Partnership working charters

## Independence and objectivity

42. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are

overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

43. The engagement lead (i.e., appointed auditor) for the Comhairle is Brian Howarth, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Comhairle nan Eilean Siar.

## Quality control

44. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

45. 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.

46. 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.

# Comhairle nan Eilean Siar

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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