

Comhairle nan Eilean Siar

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

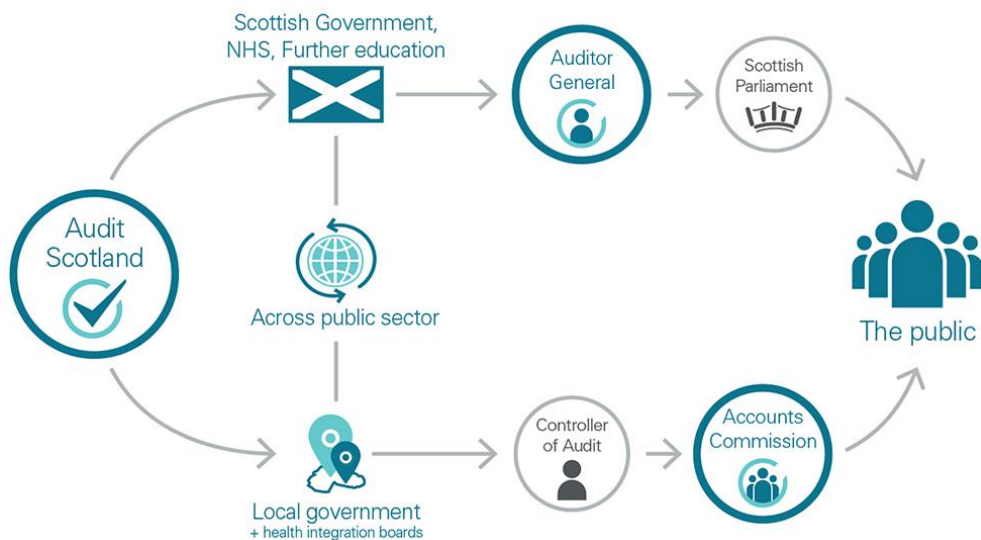
Prepared for Comhairle nan Eilean Siar
March 2020



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.

Contents

Risks and planned work	4
Audit scope and timing	10

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 financial statements 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 Comhairle nan Eilean Siar 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 promote improved standards of governance, better management and decision making and more effective use of resources.


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 . 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 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>ISA 240 requires 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 change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Use of data analytics to carry out detailed testing of journal entries Focused testing of accruals and prepayments Evaluate significant transactions that are outside the normal course of business Review and assessment of accounting estimates.

	Audit Risk	Source of assurance	Planned audit work
2	<p>Risk of material misstatement caused by fraud in income recognition.</p> <p>The Comhairle receives a significant amount of income from several sources including Scottish Government funding, taxation receipts and income from fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<ul style="list-style-type: none"> All key financial systems are reviewed over the lifespan of the Strategic Audit Plan, including Council Tax, NDR, Debtors and Income Management systems 	<ul style="list-style-type: none"> Testing the operation of key controls over council tax, NDR, income and cash & bank systems Analytical procedures on income streams Detailed testing of revenue transactions focusing on the areas of greatest risk.
3	<p>Risk of material misstatement caused by fraud in expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. The Comhairle incurs significant expenditure in areas such as service provision, welfare benefits and grant funding. An inherent risk of fraud is therefore present.</p>	<ul style="list-style-type: none"> As above, Creditors and Payroll systems are audited regularly. Monthly reconciliations of control accounts and bank accounts. NFI arrangements. 	<ul style="list-style-type: none"> Review of key controls within the financial systems including creditors/expenditure systems Reliance on the work of internal audit on key controls for housing benefits Detailed substantive testing of expenditure including staff costs, welfare payments and grants awarded.
4	<p>Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of fixed assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> Timescale for delivery of IAS19 report for pensions agreed with Highland Council well in advance. Fixed Asset Valuations undertaken by experts at Valuation Office. Review of main provisions undertaken each year. 	<ul style="list-style-type: none"> Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. Undertake walk through testing to understand and assess the methodology used by experts to value non-current assets. Assessment of the appropriateness of actuarial assumptions including comparison with those applied to similar local authorities Review officers' assessment of other significant accruals and provisions at the year end.

	Audit Risk	Source of assurance	Planned audit work
			<ul style="list-style-type: none"> Review actual experience of significant estimates made in the prior year.
Wider dimension risks			
5	<p>Financial sustainability</p> <p>A reliance on general fund reserves to support the budget has seen the balance drop from £23 million at 31 March 2018 to £19 million at 31 March 2019.</p> <p>The Comhairle's 2019/20 budget includes the use of a further £2.4m of reserves earmarked to support the budget. At the end of the second quarter of 2019/20 the anticipated use of reserves to support the budget had increased to £3.3m.</p> <p>Reliance on reserves to bridge budget gaps is unsustainable in the longer term. There is a risk that the Comhairle is unable to achieve the necessary sustainable savings measures through service redesign and other measures or meet cost pressures as they arise to sustain a prudent level of reserves.</p>	<ul style="list-style-type: none"> The Comhairle has an established Budget Strategy which is based around ongoing (1%) annual efficiencies, partnership working, community empowerment and a £10m Service Redesign Programme. The Comhairle has also applied balances strategically to smooth the budget process and avoid the need for short term cuts. The Comhairle continues to maintain a long-term strategy which provide the framework for the annual budgets. 	<ul style="list-style-type: none"> Review budget monitoring reports and the financial position at the year end. Undertake audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non-recurring savings. Monitor planned use of reserves against actual. Review of assumptions included within the financial plan.
6	<p>Financial management</p> <p>Being able to set an achievable balanced budget is a key aspect of good financial management. In 2018/19 significant variances to budget were identified in relation to service redesign savings achieved and in expenditure from centrally held budgets.</p> <p>There is a risk that financial management processes are unable to report and control expenditure in line with plans adding to the risk of issues with medium/ long term sustainability.</p>	<ul style="list-style-type: none"> In the context of delays realising savings in previous years the forward strategy for 2020/21 includes a more detailed set of proposals that can be effectively managed during the year. The Comhairle continues to maintain robust financial management systems and reporting. 	<ul style="list-style-type: none"> Review of year end service redesign savings achieved against planned savings Review of centrally held budget outturn against budget.

	Audit Risk	Source of assurance	Planned audit work
7	<p>Governance and transparency – capital slippage</p> <p>The Comhairle has underspent against its capital budget in the past two years. In 2017/18 and 2018/19 the Comhairle planned to spend £21m and £19m. Actual spends were £11m and £12m respectively.</p> <p>There is a risk that capital slippage is not being identified at an early enough stage to allow spending to be transferred and accelerated in other projects or that capital plans are being overly optimistic in their scale / pace.</p>	<ul style="list-style-type: none"> • The nature of the Comhairle's 2018-23 Capital Programme means that the timing of the delivery of major projects can have a significant impact on the in-year financial performance. • With such limited capital available, delays in delivering projects do not mean that these resources can be transferred elsewhere otherwise the Comhairle would be unable to deliver its strategic objectives. 	<ul style="list-style-type: none"> • Review of capital monitoring reports to assess whether these provide sufficient detail relating to programme spending, individual project spending against earlier estimates, and annual spending against budgets. • Review of how slippage in the capital programme is identified and reported. • Review a sample of recently completed capital projects and assess actual costs and timing of spend against original budgets.
8	<p>Governance and transparency – procurement fraud</p> <p>Public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. Procurement is one area where there is a specific risk to local authorities.</p>	<ul style="list-style-type: none"> • The Comhairle has established a robust set of anti-fraud measures across its Purchase to Pay systems, including training of relevant staff. 	<ul style="list-style-type: none"> • Assessment of controls around procurement including review of relevant policies and procedures, staff training provision, and recognition of procurement fraud risk in operational risk registers • Review of recent procurement exercises to assess compliance with procurement policies and procedures
9	<p>Value for money</p> <p>In 2019 National Benchmarking measured the Comhairle's performance against other local authorities across 75 statutory performance indicators. Results evidenced areas of relatively poor performance for the Comhairle, with only 44% of performance indicators in the top two quartiles and 36% in the bottom quartile.</p>	<ul style="list-style-type: none"> • The Comhairle has agreed to review local government benchmarking performance. • There is a national trend for reduction in satisfaction with services which may be linked to reductions in funding. 	<ul style="list-style-type: none"> • Review performance data from the Local Government Benchmarking Framework over time to evaluate the performance and direction of travel • Compare performance with local authorities with a similar geographical context and those from the same family group • Evaluation of progress in achieving the

 Audit Risk	Source of assurance	Planned audit work
<p>Satisfaction levels with services have also declined steadily in the last 5 years.</p> <p>There is a risk that the Comhairle are not delivering value for money in providing services and achieving the Best Value principle of continuous improvement.</p>		<p>objectives set out in the Outer Hebrides Community Planning Partnership (OHCPP) Local Outcome Improvement Plan.</p> <ul style="list-style-type: none"> Assessment of the circumstances of the geography and island context in determining whether performance is affected by the environment in which the council operates.

Source: Audit Scotland

Reporting arrangements

5. 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.

6. 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.

7. We will provide an independent auditor's report to the Comhairle and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of 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.

8. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December. Management are required to submit their audited financial statements by 30 June to meet the consolidation timetable.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	March 2020	3 March 2020
Management Report	June 2020	23 June 2020
Independent Auditor's Report	September 2020	29 September 2019
Annual Audit Report	September 2020	29 September 2019

Source: Audit Scotland

Audit fee

9. The agreed audit fee for the 2019/20 audit of Comhairle nan Eilean Siar is £202,620 (2018/19 - £198,490). 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. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package by 30 June 2020.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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.

Responsibilities

Audit & Scrutiny Committee and Chief Executive

11. 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.

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

Appointed auditor

13. Our responsibilities as independent auditors are established 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.

14. 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, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

15. 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 Comhairle 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 Comhairle 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.

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

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Comhairle and its group as at 31 March 2020 and of the income and expenditure of the Comhairle and its group for the year then ended;
- 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.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

17. 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.

18. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

19. 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.

20. We calculate materiality at different levels as described below. The calculated materiality values for the Comhairle are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – This is the calculated figure we use 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 2019 based on the latest audited accounts.	£1.7 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 calculated performance materiality at 60% of planning materiality and rounded to a memorable metric.	£1.0 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. This has been calculated at 4% of planning materiality and rounded to a memorable metric.	£75,000

Source: Audit Scotland

Timetable

21. 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	23 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for receipt of assurances from Group's Component Auditors	31 July 2020
Latest date for final clearance meeting with Director for Assets, Finance and Resources	11 September 2020
Issue of Letter of Representation and proposed independent auditor's report	September 2020
Agreement of audited unsigned annual report and accounts	September 2020
Independent auditor's report signed	September 2020
Issue of Annual Audit Report to those charged with governance	September 2020
Latest date for signing of WGA return	28 September 2020

Internal audit

22. Internal audit is provided by a team of staff managed by the Chief Internal Auditor. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

23. Our assessment of the internal audit function concluded that it complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

24. 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

25. From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following areas:

- Payroll and expenses (Financial Systems review)
- Housing Benefits (Financial Systems review)
- Non-Domestic rates (Financial Systems review)
- Statutory Performance Indicators

26. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal work including:

- Organisational change/redesign and savings
- Community engagement

Audit dimensions

27. 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

28. 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.

Financial sustainability

29. 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 the Comhairle can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

30. 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 the Comhairle has arrangements in place to ensure systems of internal control are operating effectively
- whether the Comhairle can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance

- how the Comhairle has assured itself that its financial capacity and skills are appropriate
- whether the Comhairle has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

31. 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. We will review, conclude and report on:

- whether the Comhairle can demonstrate that the governance arrangements in place are appropriate and operating effectively
- 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

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

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

Best Value

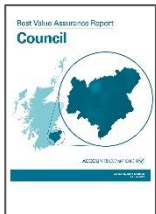
33. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

34. 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.

35. 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	Dundee Council
	Argyle and Bute Council	Falkirk Council
	City of Edinburgh Council	Moray Council
	North Ayrshire Council	

Source: Audit Scotland

36. The work planned for this year will focus on the Comhairle's arrangements for demonstrating Best Value in improving performance and outcomes. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the Interim Management Report and Annual Audit Report.

Independence and objectivity

37. 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.

38. 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 the Comhairle.

Quality control

39. 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.

40. 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.

41. 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

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