

Argyll and Bute Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Argyll and Bute Council

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Argyll and Bute Council (the Council). 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 remuneration report, management commentary and the annual governance statement
- 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 Council's arrangements for preparing and publishing statutory performance information
- review the Council'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 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 will help the Council 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 Argyll and Bute Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Council. 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.

Audited Body responsibilities

8. Argyll and Bute Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the Council 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 the Council are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Argyll and Bute Council

Materiality	Council	Group
Planning materiality – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been based on the audited financial statements for 2020/21.	£6.0 million	£6.1 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 assessed performance materiality at 70% of planning materiality.	£4.2 million	£4.3 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.	£250 thousand	£250 thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of the Council, 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>1. Risk of material misstatement due to fraud caused by the management override of controls</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"> • Assess the design and implementation of controls over journal entry processing. • 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. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Focused testing of accounting accruals and prepayments.

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 over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Council because a significant element of the Council's income is from central government grant, council tax and non-domestic rates, 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 audit procedures.

16. In line with Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Argyll and Bute Council as our assessment of the expenditure transaction streams has confirmed that many are low risk, for example, staff costs, depreciation, pensions IAS 19 charges and our standard audit procedures will involve focused testing on accruals in any higher risk areas.

17. Practice Note 10 also introduces the concept of external fraud risk and we have assessed the levels of fraud in the public sector per the National Fraud Initiative and this, as well as the analysis of expenditure, indicates that there is not a high risk of fraud across payment streams.

18. 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

19. 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 these risks become significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly. The areas of specific audit focus are:

- **Valuation and measurement of Non-Current Assets:** At 31 March 2021, the Council held non-current assets with a value of £671.3 million. This included Land and Buildings with a net book value of £376.1 million. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations.
- **Measurement and judgements applied to the valuation of pension liabilities:** As at 31 March 2021, the Council recognised a net liability of £82.3 million relating to its share of the Strathclyde Pension Fund liability. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates.

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. Argyll and Bute Council has a group which is comprised of subsidiaries, associates and joint ventures. The audits of the financial statements of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors as part of our work on the group accounts.

Audit of the trusts registered as Scottish charities

22. Members of the Council are sole trustees for seven trusts and one common good fund registered as Scottish charities, with total assets of some £7.3 million. 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.

23. 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 registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

24. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2021/22 Materiality levels for charitable trusts

25. Planning materiality has been assessed on 2% of net assets (based on the audited financial statements for 2020/21), whilst performance materiality has been calculated at 75% of Planning Materiality. The reporting threshold has been calculated at 5% of Planning materiality.

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Oban Common Good	£130,000	£98,000	£6,000
Argyll Education Trust	£16,000	£12,000	£800
McCaig Trust	£1,650	£1,200	£80
Marquess of Bute Silver Wedding Dowry	£200	£145	£10
Baillie Gillies Bequest	£200	£150	£10

Kidston Park Trust	£70	£55	£4
Miss Annie Dickson Bequest	£80	£60	£4
Logie Baird Prize Fund	£40	£30	£2

Source: Audit Scotland

26. Based on our discussions with staff and initial planning work we have identified the following significant risk of material misstatement for the audit of the charitable trusts: management override of controls. This risk and planned audit response have been included in [Exhibit 2](#).

Audit risk assessment process

27. 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.

Audit dimensions and Best Value

Introduction

28. 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

29. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

30. 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

31. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is to be assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on 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 Accounts 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 over the period of the audit appointment.

32. BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

Exhibit 5

2022 Best Value Assurance Reports



Comhairle nan Eilean Siar

Shetland Island Council

Angus Council

Moray follow-up

Source: Audit Scotland

33. The Best Value work planned this year will focus on the Council's arrangements for Effective Use of Resources and Performance, Outcomes and Improvement. Also, we will be following-up findings reported in the BVAR in May 2020 to assess progress on the pace and depth of continuous improvement. Our findings will be reported through our Annual Audit Report.

Audit dimension risks

34. We have identified audit risks in the areas set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>Councils continue to face significant financial challenges with pressures on funding and increasing demand for services. As per the Budget Outlook report presented to the Policy and Resources Committee in December 2021, the Council's budget estimates are for a mid-range budget gap of £3.7 million for 2022/23, rising to an in-year gap of £26.7 million by end of 2026/27.</p> <p>(Note that the 2022/23 budget will be set in February 2022 with an anticipated balanced position. This will still leave significant gaps in future years that will require to be addressed.)</p> <p>At the end of January 2022, the Council are reporting a small underspend in 2021/22. As a result, there is a risk to financial sustainability and the sustainability and quality of services in future.</p>	<ul style="list-style-type: none"> Continued delivery of savings options which align available budget with the Council's priorities. Regular monitoring and reporting on the delivery of savings options. The Medium to Long Term Financial Strategy was updated in 2021/22, this will continue to be reviewed on an ongoing basis. Strategic Management Team will oversee the further development of savings options, including alternative service delivery models, identified in 2020/21, which require further development and consultation before being proposed to elected members. 	<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.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

35. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

36. 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.

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

38. 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.

39. [Exhibit 7](#) 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.

Exhibit 7

2021/22 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
Annual Audit Plan	31/03/2022	15/03/2022
Independent Auditor's Report	31/10/2022	To be confirmed
Annual Audit Report	31/10/2022	To be confirmed

Source: Audit Scotland

Audit fee

40. The proposed audit fee for the 2021/22 audit of the Council is £272,210 (2020/21: £266,490) and is inclusive of the fee for the audit of the Charitable Trusts. The proposed audit fee for the 2021/22 audit of the Charitable Trusts is £4,000 (2020/21: £3,650).

41. In determining the audit fee, we have taken account of the risk exposure of the Council, the planned management assurances in place and proposed to the level of reliance we plan to take from the work of internal audit.

42. 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.

Other matters

Internal audit

43. 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. We do plan to consider the findings of Internal Audit across a range of work including Continuous Monitoring Programme, Fixed Asset Register, Land and Asset Disposal, and Procurement and Contract Management.

Independence and objectivity

44. 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.

45. The engagement lead (i.e. appointed auditor) for the audit of Argyll and Bute Council is John Cornett, 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 Council.

Quality control

46. 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.

47. 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.

48. 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.

Argyll and Bute Council

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