



Argyll and Bute Council Audit Committee External Audit Progress Report



Prepared for Argyll & Bute Council Audit Committee
September 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Audit Progress

Audit Plans

1. Our Annual Audit Plan (AAP) for the 2013/14 Argyll and Bute Council (ABC) audit was presented to the Audit Committee on 14 March 2014. The audit plan set out the key risks facing ABC in financial year 2013/14, the actions taken by management to mitigate these risks and the main audit outputs for the year.
2. The table at Appendix 1 provides details of progress to date against the 2013/14 AAP.

Governance work

3. **Review of internal audit.** We completed our review of the internal audit service in terms of International Standards on Auditing 610 (Considering the Work of Internal Audit). Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Our review identified a number of areas where we planned to place formal reliance on the work of internal audit for the purposes of our financial statements responsibilities. These areas were:

- | | |
|---------------------------------|-----------------------|
| • Non Domestic Rates | • Trade Receivables |
| • Council Tax | • Cash and Bank |
| • Payroll | • Treasury management |
| • Trade Payables and Purchasing | • Capital accounting. |

4. We issued a letter to the Head of Strategic Finance on 31 March 2014 advising him of those areas of internal audit work that we planned to rely upon.
5. **Internal Controls.** We have updated our knowledge of the organisation in relation to governance and accountability and completed our evaluation of the key financial systems. These are the systems that we consider to be key to providing us with assurance for the financial statements. We carried out our controls testing work and the results of this were reported to management on 3 July 2014.
6. Audit Scotland has received a large amount of correspondence relating to the council's activities. In response to some of these items, we have undertaken targeted audit work. The findings from this work are being reported to the council in the Report to Those charged with Governance on the 2013/14 Audit and in three separate letters addressed to the council's officers (known as 'management letters'). These findings are to be discussed at this meeting of the Audit Committee. They will also be summarised in the Annual Audit Report on the 2013/14 Audit which will be issued in October 2014.

Financial Statements

7. We received the unaudited financial statements on 30 June 2014 in accordance with the agreed timetable. The working papers were of a good standard and finance staff dealt with audit queries promptly
8. Our work on the financial statements is now substantially complete. The issues arising from the audit were discussed with officers at regular intervals during the course of the audit. The more significant issues arising were discussed with the Head of Strategic Finance at a meeting on 16 September 2014.
9. Our ISA 260 Report will be submitted to this meeting of the Audit Committee. This report sets out for the Audit Committee's consideration the matters arising from the audit of the financial statements for 2013/14.

Performance Audit and Best value

10. **Statutory report follow-up:** In October 2013, the Controller of Audit presented a statutory report to the Accounts Commission, under Section 102(1)(b) of the Local Government (Scotland) Act 1973. The Commission made findings on the report and the statutory report and the Commission's findings were published on 29 October 2013.
11. In its 2013 findings, the Commission expressed the need for urgent progress and requested a further report by the Controller of Audit. Follow-up audit work reviewed progress made by the council over the six-month period between the publication of the statutory report at the end of October 2013 and April 2014.
12. Summary findings from the follow-up audit report are:
 - Argyll and Bute Council has responded constructively to the Accounts Commission findings on the 2013 statutory report and it is making progress with improvement work. It is, however, too early to assess the effectiveness of the actions and plans being implemented.
 - The leadership and political dynamics of the council are more stable but the situation remains fragile. The risk to the council is currently reduced but there are difficult circumstances ahead and tough decisions to be made that will prove challenging to political management and ongoing stability.
 - New political management arrangements provide a foundation for improved governance. The council needs to ensure councillors and officers have a shared understanding in practice about the roles and responsibilities as well as effective links within and across the new arrangements to ensure they meet their potential.
 - Scrutiny still needs to improve. In particular, the council needs the commitment and engagement of councillors in the work of the Performance Review and Scrutiny

Committee and the Audit Committee, if these are to make an effective contribution to governance and accountability. The role of senior management will also be crucial.

13. The Commission has asked the Controller of Audit to report on progress by the end of 2015, with particular focus upon the effectiveness of the following:
 - Political management arrangements.
 - Scrutiny.
 - Roles and relationships, including between members and officers.
14. **National reports:** Audit Scotland's Performance Audit and Best Value (PABV) Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. The findings and key messages of each study are published in a national report. Recent studies of relevance to local government in Scotland have included a review of School Education (published June 2014) and Procurement in councils (published April 2014). The National Scrutiny Plan for Local Government was published in June 2014.
15. Full copies of these reports and all other national reports are available for download from the Audit Scotland website (www.audit-scotland.gov.uk).
16. **Impact reports:** In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits follow up reviews were undertaken of a number of studies at a local level. In 2013/14 this included a targeted review of Arm's-length external organisations (ALEOs): are you getting it right? (June 2011) and Major Capital Investment in councils (March 2013).
17. In relation to ALEOs, we concluded that the council does not have any and accordingly, no further work was required. In relation to Major Capital Investment, we provided information to Audit Scotland's PABV Group on the extent to which the national report and good practice guidance and checklist were considered by the relevant council and any action taken as a result. We concluded that the council has made good progress in addressing relevant recommendations made in the report.

Technical Bulletins

18. Audit Scotland's Technical Services Unit prepares and issues Technical Bulletins (TBs) on a quarterly basis to provide auditors with guidance and information on technical developments in the quarter. Additionally, TBs are sent to audited bodies and other stakeholders to make them aware of the issues that have been notified to auditors. The most recent TB was issued in September 2014 (TB 2014/3). Key issues relating to the local authority sector are summarised at Appendix 2 for information.
19. It should be noted that the matters highlighted in Appendix 2 are not exhaustive; they highlight some of the key issues. It is important that the council has procedures in place to review technical guidance.

Appendix 1

2013/14 Planned Outputs

Outturn against 2013/14 annual audit plan as at 16 September 2014

Planned outputs	Planned reporting date	Date draft report submitted	Management response to draft	Final report submitted
Governance				
Internal audit reliance letter	31/03/2014	-	-	31/03/2014
Annual audit plan	31/03/2014	07/03/2014	10/03/2014	10/03/2014
Internal controls management letter	30/06/2014	30/06/2014	02/07/2014	03/07/2014
Financial Statements				
Report to management in terms of ISA 260 (Communication of audit matters to those charged with governance)	30/09/2014			
Independent auditor's report on the financial statements	30/09/2014			
Audit opinion on charitable trusts	30/09/2014			
Annual report to Members	31/10/2014			
Performance				
Targeted follow up of performance audit: ALEOs	31/05/2014	-	-	31/05/2014
Targeted follow up of performance audit: Major capital investment in councils	30/06/2014	-	-	27/06/2014

Appendix 2

Summary of Technical Bulletin issues

2014/3: September 2014

Topic	Issue
<p>New accounts regulations from 2014/15</p>	<ul style="list-style-type: none"> • The Local Authority Accounts (Scotland) Regulations 2014 have been issued to replace the 1985 regulations in respect of local authority annual accounts with effect from 2014/15. The Scottish Government has issued Finance circular 7/2014 to accompany the new regulations. • Key points in the regulations and circular include: <ul style="list-style-type: none"> – a new requirement for local authorities to undertake an annual review of their system of internal control and report this in an annual governance statement – the new requirement for an authority to undertake an adequate and effective internal auditing service in accordance with the Public sector internal audit standards – Regulation 8 sets out the process for the consideration of the unaudited annual accounts – Regulation 8(2) sets out the statements which must be included in the annual accounts
<p>2013/14 guidance on accounting for decommissioning obligations</p>	<ul style="list-style-type: none"> • The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) has issued Guidance on asset decommissioning obligations to provide guidance on accounting for asset decommissioning obligations from 2013/14. The guidance is applicable to all relevant asset decommissioning obligations. Whilst LASAAC considered the matter in relation to landfill sites, the accounting will also apply to other obligations e.g. quarries, waste treatment facilities, etc. • The guidance outlines that retrospective restatement may be required in 2013/14 for any previously unrecognised obligations. This will have an immediate funding impact for the local authorities affected as they are required to fund the new capital expenditure and any unwinding of the discount. Scottish Ministers have issued statutory guidance which includes mitigation of the funding impact.

Topic	Issue
Draft 2015/16 Code	<ul style="list-style-type: none">• The CIPFA/LASAAC Local Authority Code Board has issued an exposure draft of proposed amendments to the accounting Code for 2015/16.• The exposure draft proposes changes to the Code in respect of<ul style="list-style-type: none">– the adoption of IFRS 13 Fair value measurement– heritage assets– accounting for employee pension contributions.
