

# Argyll and Bute Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

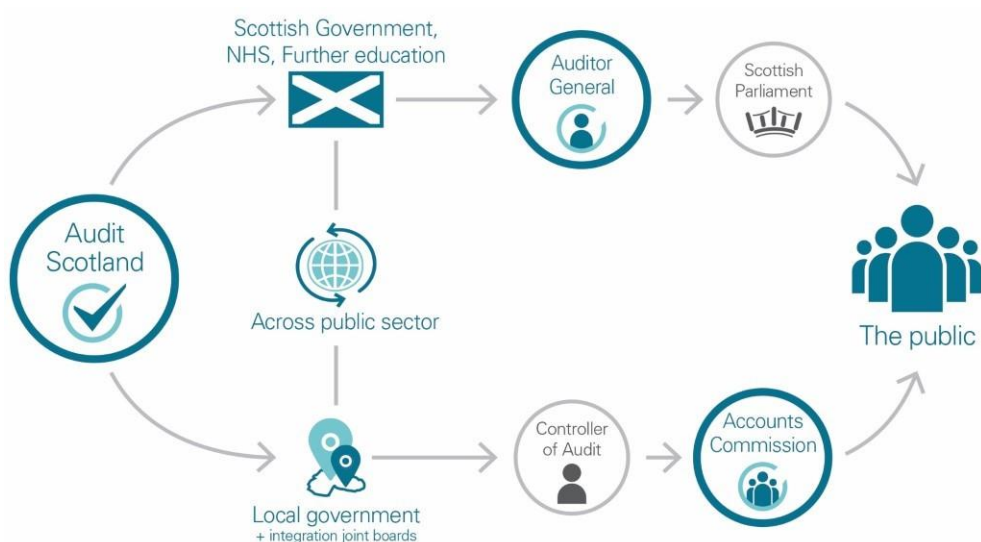
Prepared for Argyll and Bute Council

April 2021

## 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.

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# Risks and planned work

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- 1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.
- 2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
- 3.** The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


- 5.** We aim to add value to Argyll and Bute Council (the Council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend all meetings of the Audit and Scrutiny Committee and actively participate in discussions.


## Audit risks

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

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Risks of material misstatement due to:</b>		
<p><b>1 Management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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>• Detailed testing of journal entries focussing on authorisation and approval.</li> <li>• Review of accounting estimates and evaluation of the impact of any variability in key assumptions.</li> <li>• Focussed testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> <li>• Year-end cut-off testing.</li> </ul>
<p><b>2 Fraud over expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>The Council incurs significant expenditure on a range of activities. The extent of expenditure means there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>Clear schemes of delegation and authorisation limits, separation of duties and workflow associated with expenditure.</p> <p>A sound system of budgetary control is in place. This includes regular budget monitoring reports being provided to members.</p> <p>The internal audit plan includes a programme of continuous testing across expenditure systems.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of expenditure transactions focusing on the areas of greatest risk and whether expenditure is recorded in the correct accounting year.</li> <li>• Walkthroughs of key financial systems.</li> <li>• Review of provisions included in the 2020/21 financial statements for completeness and accuracy.</li> </ul>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement or valuation of the following material account areas:</p> <p><b>Non-current asset valuations</b></p> <p>At 31 March 2020, the Council held non-current assets with value of £648.377 million. This included Land and Buildings with a net book value of £370.616 million. There is a significant degree of subjectivity in the valuation of land and buildings.</p>	<p>Any significant estimates and judgements are clearly explained in the Notes to the Accounts.</p> <p>Non-current assets are professionally valued by RICS, qualified surveyors, in accordance with instructions issued by the Council.</p> <p>Pension liabilities are derived from valuation calculations prepared by actuaries appointed by</p>	<p><b>Non-current asset valuations</b></p> <ul style="list-style-type: none"> <li>• Completion of 'review of the work of management's expert' for the internal professional valuer.</li> <li>• Review of land and buildings revaluations carried out, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations. The impact of Covid-19 gave rise to a material valuation uncertainty within the 2019/20 valuations and may have a similar impact in 2020/21 depending on guidance issued by the Royal Institute of Chartered Surveyors.</p> <p><b>Pension liabilities</b></p> <p>The Council recognised a net liability of £67.346 million relating to its share of the Strathclyde Pension Fund liability at 31 March 2020. 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.</p> <p>Additionally, the triennial valuation exercise will take place for the pension fund and impact on the 2020/21 annual accounts. This exercise is more detailed than the annual valuations and will also set employer contributions rates for the next three years.</p>	<p>Strathclyde Pension Fund.</p>	<p>suitably qualified individuals.</p> <ul style="list-style-type: none"> <li>• Confirm land and buildings asset revaluations in valuer's report are correctly reflected within the 2020/21 financial statements.</li> <li>• Work to assess the reasonableness of the valuations in the valuer's report.</li> </ul> <p><b>Pension liabilities</b></p> <ul style="list-style-type: none"> <li>• Completion of 'review of the work of management's expert' for actuary.</li> <li>• Confirm pension valuations in actuarial report are correctly reflected within the 2020/21 financial statements.</li> <li>• Assess the completeness and accuracy of information provided to actuary to support the triennial revaluation process.</li> <li>• Review and assess the reasonableness of actuary's valuations and assumptions.</li> </ul>

## Wider dimension risks

### 4 Financial sustainability

Councils continue to face significant financial challenges with pressures on funding and increasing demand for services.

As per the report which will be presented to the Policy and Resources Committee in May 2021, the Council's budget estimates are for a mid-range budget gap of £2.490 million for 2022/23, rising to an in-year gap of £4.162 million by end of 2025/26 (cumulative gap of £23.018 million over the five-year period). There is a balanced budget position for 2021/22, after recognition of all agreed, and estimated, measures available. Beyond 2021/22, there remains significant budget gaps in future years.


Continued delivery of savings options which align available budget with the council's priorities.

Regular monitoring and reporting on the delivery of savings options.

Medium- to long-term financial strategy already in place and will be further developed.

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

- 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.

	Audit Risk	Source of assurance	Planned audit work
	<p>The Covid-19 pandemic has introduced further cost pressures and additional financial uncertainty for the Council. It has disrupted the Council's ability to implement transformational/savings plans in response to the budget gap.</p> <p>As a result, there is a risk to financial sustainability and the sustainability and quality of services in future.</p>	<p>consultation before being proposed to elected members.</p>	

Source: Audit Scotland

**7.** As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. We have rebutted the risk of material misstatement caused by fraud in income recognition for 2020/21, 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.

**8.** From January 2020, the Chief Internal Auditor (CIA) has taken on some of the responsibilities of the Head of Financial Services, who has been appointed as an Executive Director. This arrangement was initially planned to end in June 2020 but will continue until a new Head of Financial Service is appointed permanently. Currently, the Council are recruiting to fill the Head of Financial Services post on a permanent basis. The Council have confirmed that the Executive Director will retain the Section 95 Officer responsibilities.

**9.** During this arrangement the Council have put mitigating measures in place to manage any potential conflicts of interest. However, we do recognise that a risk remains that the CIA's independence may be compromised by these continuing arrangements.

## Reporting arrangements

**10.** The statutory deadline for certifying the annual accounts has been pushed back to 30 November 2021. There is still considerable uncertainty around the impact of Covid-19 and therefore, our approach when necessary will be flexible. Whilst we will do our best to achieve the statutory deadlines, we are unable to make any definitive commitments to meeting them at this early stage of the audit. We will continue our ongoing and regular dialogue with finance staff to ensure they, and we, remain sighted on these challenges.

**11.** The main outputs from our audit work in 2020/21 will consist of the following:

- an independent auditor's report to Argyll and Bute Council and the Accounts Commission setting out our opinions on the annual accounts, and
- an Annual Audit Report to the Accountable Officer and the Accounts Commission containing observations and recommendations on significant matters which have arisen during the audit.

**12.** 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.



## The audit of trusts registered as Scottish charities

**13.** Members of Argyll and Bute Council are sole trustees for seven trusts and one common good fund, registered as Scottish charities, with total assets of some £9.642 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.

**14.** 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.

### Audit fee

**15.** The proposed audit fee for 2020/21 is £266,490 (this is inclusive of the fee for the audit of the Charitable Trusts). This is set out in [Exhibit 2](#).

## Exhibit 2 Audit Fee

	2020/21	2019/20
Council fee	£266,490	£259,570
Charitable Trusts fee	Included in Council audit fee above.	£3,650
<b>Total fee payable</b>	<b>£266,490</b>	<b>£263,220</b>

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

**17.** 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 Committee and Accountable Officer

**18.** 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.

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

### Appointed auditor

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



**21.** 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

## Annual accounts

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

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

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

- give a true and fair view of the state of affairs of the Council and its group as at 31 March 2021 and of the income and expenditure of the Council and its group for the year then ended, in accordance with applicable law and the 2020/21 Code;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



## Statutory other information in the annual accounts

**24.** 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.

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

## Materiality

**26.** 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.

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

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2021 based on the latest audited accounts for 2019/20.	£6.000 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 calculated performance materiality at 70% of planning materiality.	£4.250 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250 thousand

Source: Audit Scotland

### Internal audit

28. 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 (UK)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.

29. We will report any significant findings to management on a timely basis.

### Using the work of internal audit

30. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use 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. We plan to consider internal audit's work in support of the Annual Governance Statement included within the Council's annual accounts.

**31.** In terms of our wider dimension responsibilities we plan to consider other areas of internal audit work including:

- Capital Monitoring
- Disaster Recovery Planning
- Workforce Planning
- Intercompany Controls
- Charging for Non-residential Care Services

## Audit dimensions

**32.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 4](#).

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### Exhibit 4 Audit dimensions



Source: Code of Audit Practice

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**33.** 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.

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

### Financial sustainability

**35.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

**36.** As part of our work this year, we will broaden our consideration of these matters in light of the impact of the Covid-19 pandemic.

### Financial management

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

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

**38.** As part of our work this year, we will broaden our consideration of these matters in light of the impact of the Covid-19 pandemic.

### Governance and transparency

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

**40.** As part of our work this year, we will broaden our consideration of these matters in light of the impact of the Covid-19 pandemic.

### Value for money

**41.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether (the body) can demonstrate:

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

**42.** As part of our work this year, we will broaden our consideration of these matters in light of the impact of the Covid-19 pandemic.

## Best Value

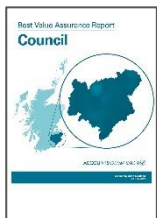
**43.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

**44.** A Best Value review of the Council was completed in 2019/20 and reported to the Council in June 2020. As part of our 2020/21 audit work, we will follow up the Council's progress in addressing the recommendations from our Best Value Review.

**45.** The councils on which a BVAR will be published during the fifth year of the new approach are listed in [Exhibit 4](#). Reports will be considered by the Accounts Commission in the period between March and November 2021.

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## Exhibit 4 2020/21 Best Value Assurance Reports



Aberdeen City Council

Falkirk Council

South Ayrshire Council

East Dunbartonshire Council

Source: Audit Scotland

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## Independence and objectivity

**46.** 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.

**47.** The engagement lead (i.e. appointed auditor) for the 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

**48.** International Standard on Quality Control 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.

**49.** 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.

**50.** 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

## Annual Audit Plan 2020/21

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