

# Audit Progress Report

Argyll and Bute Council

March 2023



# Contents

1. Audit progress
2. Wider scope and Best Value
3. ISA (UK) 315 (Revised 2019)

This document is to be regarded as confidential to Argyll and Bute Council. It has been prepared for the sole use of the Argyll and Bute Council. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

# 01

Section 01:  
**Audit Progress**

# 1. Audit progress

We are delighted to have been engaged to perform the audit of the Argyll and Bute Council (the Council).

## Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit approach and in accordance with the terms of our engagement. Our work is focused on those aspects of your activities which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations or areas which have been found to contain material errors in the past.

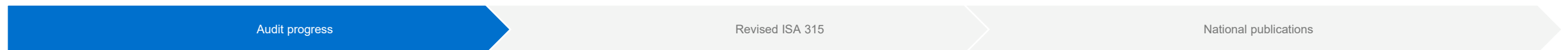
## Audit approach

Our audit approach is risk-based and primarily driven by the issues that we consider lead to a higher risk of material misstatement of the accounts. Once we have completed our risk assessment, we develop our audit strategy and design audit procedures in response to the risks identified.

If we conclude that appropriately-designed controls are in place then we may plan to test and rely upon these controls. If we decide controls are not appropriately designed, or we decide it would be more efficient to do so, we may take a wholly substantive approach to our audit testing. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise: tests of details (of classes of transactions, account balances, and disclosures); and substantive analytical procedures. Irrespective of the assessed risks of material misstatement, which take into account our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transactions, account balance, and disclosure.

Our audit will be planned and performed so as to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view.

The diagram on page 6 outlines the procedures we perform at the different stages of the audit.



# 1. Audit progress

## Status of the audit

Our planning work for the 2022/23 audit is underway. As part of our planning, we have met with the predecessor auditor (Audit Scotland), reviewed the prior year audit files and met with finance officers and internal audit in order to discuss the timetable, systems and potential risks. We will continue to have regular catch up meetings with officers as the audit progresses.

We intend to bring our Audit Strategy Memorandum to the next meeting of the Audit and Scrutiny Committee (the Committee) meeting. However, we felt that members of the Committee would benefit from an early view of the draft timeline for the 2022/23 audit.

We will agree a detailed timetable for our work with officers. However, at this stage we anticipate carrying out our final fieldwork between July and September 2023.



Audit progress

Revised ISA 315

National publications

# 1. Audit progress

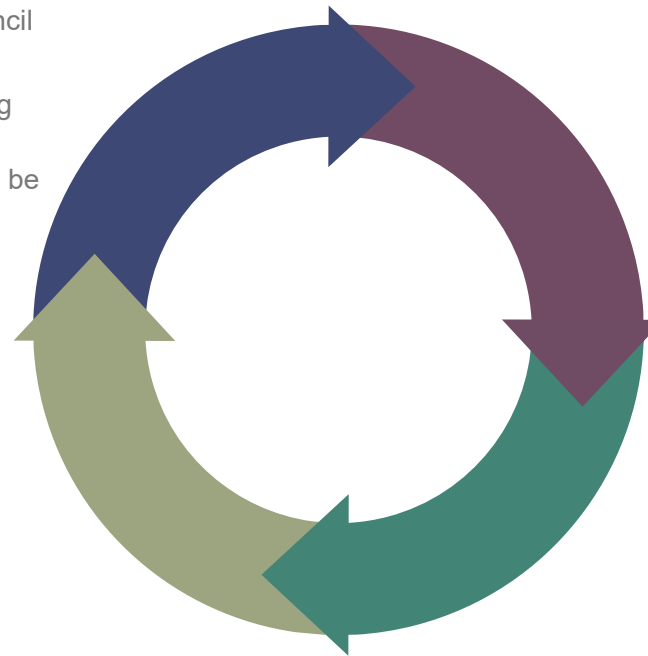
## Financial statements audit 2022/23 draft timetable

### Planning (January to April 2023)

- Planning visit and developing our understanding of the Council
- Initial opinion risk assessments
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Preliminary analytical review

### Completion (September 2023)

- Final review and disclosure checklist of financial statements
- Final Partner Review
- Agreeing content of letter of representation
- Reporting to the Audit and Scrutiny Committee
- Reviewing subsequent events
- Signing the auditor's report



### Interim (April to June 2023)

- Documenting systems and controls
- Performing walkthroughs
- Interim controls testing including tests of IT general controls
- Early substantive testing of transactions
- Reassessment of audit plan and revision if necessary
- Wider Dimension risk assessment and work

### Fieldwork (July to September 2023)

- Reviewing the draft financial statements
- Reassessment of audit plan and revision if necessary
- Executing the strategy starting with significant risks and high risk areas
- Communicating progress and issues
- Clearance meeting

Audit progress

Revised ISA 315

National publications

# 1. Audit progress

Whilst our planning and risk assessment procedures remain in progress, our initial planning work has identified relevant risks to the audit of financial statements. The risks identified are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

## Significant risk

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. For any significant risk, the auditor shall obtain an understanding of the entity's controls, including control activities relevant to that risk.

## Enhanced risk

An enhanced risk is an area of higher assessed risk of material misstatement ('RMM') at audit assertion level other than a significant risk. Enhanced risks require additional consideration but does not rise to the level of a significant risk, these include but may not be limited to:

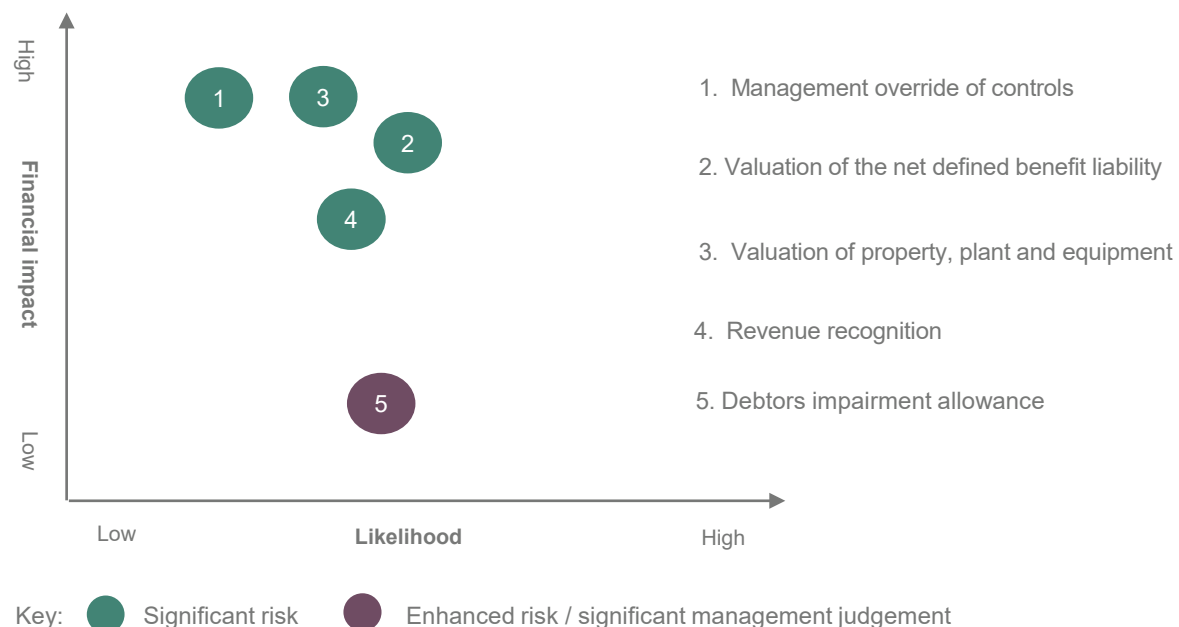
- key areas of management judgement, including accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement; and
- other audit assertion risks arising from significant events or transactions that occurred during the period.

## Standard risk

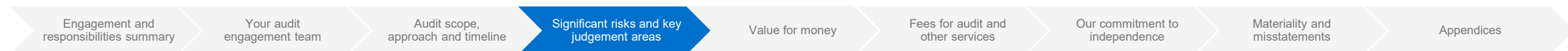
This is related to relatively routine, non-complex transactions that tend to be subject to systematic processing and require little management judgement. Although it is considered that there is a risk of material misstatement (RMM), there are no elevated or special factors related to the nature, the likely magnitude of the potential misstatements or the likelihood of the risk occurring.

## Summary risk assessment

The summary risk assessment, illustrated in the table below, highlights those risks which we deem to be significant and other enhanced risks in respect of the Council.



1. Management override of controls
2. Valuation of the net defined benefit liability
3. Valuation of property, plant and equipment
4. Revenue recognition
5. Debtors impairment allowance



# 1. Audit progress

## Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole.

Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on consideration of the common financial information needs of users as a group and not on specific individual users.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

Whilst planning, we make judgements about the size of misstatements which we consider to be material and which provides a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

The materiality determined at the planning stage does not necessarily establish an amount below which uncorrected misstatements, either individually or in aggregate, will be considered as immaterial.

We will revise materiality for the financial statements as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Our planning materiality will be based on the audited 2021/22 accounts and will be set based on a benchmark of total expenditure. We will identify a figure for materiality but identify

separate levels for procedures design to detect individual errors, and also a level above which all identified errors will be reported to the Council's Audit and Compliance Committee.

We consider that total expenditure represents the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

Materiality	Amount (£m)
<b>Financial statement materiality</b> This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of total expenditure for the year ended 31 March 2023 based on the latest audited financial statements for 2021/22 (rounded to the nearest million).	8.70
<b>Performance materiality</b> This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	5.20
<b>Reporting threshold (ie clearly trivial)</b> We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	0.26
<b>Specific items</b> We assess the Remuneration and Staff Report as sensitive given users' interest in this specific area of the Annual Report. We are proposing to set materiality in this area at 1 band within the tables in the Remuneration Report i.e. an error that moved a disclosure by one band would be assessed as material.	1 band



# 02

Section 02:

**Wider scope and Best Value**

## 2. Wider scope and best value

### Wider scope of public audit

The wider scope audit is an integral part of our annual audit work. The Code of audit practice (the Code) requires auditors to consider the following audit areas when undertaking their annual risk assessment of the audited body and preparing their annual audit plans:

- Financial management
- Financial sustainability
- Vision, leadership and governance
- Use of resources to improve outcomes.

We will carry out audit work across these four areas and report our findings in the annual audit report. We will carry out more detailed work where we identify significant risks.

### Best Value

Best Value audit work is fully integrated with the wider scope annual audit work and results reflected in annual audit reports. There are seven Best Value themes:

- Vision and leadership
- Governance and accountability
- Effective use of resources
- Partnerships and collaborative working
- Working with communities
- Sustainability
- Fairness and equality

Audit progress

Revised ISA 315

National publications

# 2. Wider scope and best value

## 2022/23 Best Value approach

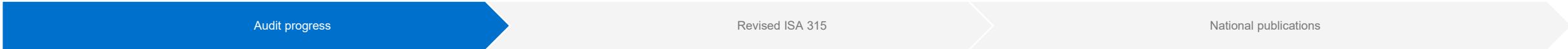
We will review the Best Value findings reported in previous Best Value Assurance Reports and annual audit reports to identify outstanding improvement actions for follow up in the current year.

We will establish what intelligence and auditor judgements has been previously reported on each of the seven Best Value themes. Where we identify risks or improvement areas, or where an audit assessment needs to be updated due to intelligence being out of date or incomplete, we will include coverage in audit plans.

We will also carry out specific work to review the Council’s service performance and reporting arrangements.

The Accounts Commission will identify areas of risk where it requires thematic audit work to be carried out in all councils, in addition to the annual Best Value work. For 2022/23 thematic work is required on leadership of the development of new local strategic priorities by councils following the local government elections in May 2022. We will prepare a separate management report to document the findings of this work.

No Best Value Assurance Reports will be published from 2022. To provide the Accounts Commission with assurance on Best Value in individual councils, the Code requires a programme of Controller of Audit reports. These reports will be based on annual audit findings reported on Best Value in each council. We are therefore required to include current judgments on the pace and depth of continuous improvement in the Council in the Annual Audit Report. The latest Annual Audit Report will be presented to the Commission with the Controller’s reports. The programme of Controller reports will commence in October 2023. Therefore no such reports are required for 2022/23 audits. The Council is not scheduled to be included in the first year of the programme from October 2023 to August 2024.



# 03

Section 03:

**ISA (UK) 315 (Revised 2019)**

# 3. Revised ISA 315

## Revised auditing standard for Identifying and assessing the risks of material misstatement: ISA (UK) 315 (Revised 2019)

*(Effective for audits of financial statements for periods beginning on or after December 15, 2021)*

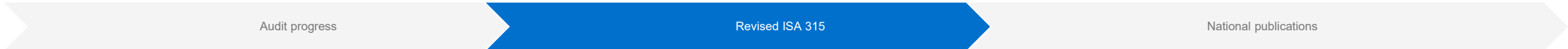
ISA (UK) 315 (Revised 2019) introduces major changes to the auditor’s risk identification and assessment approach, which are intended to drive a more focused response from auditors undertaking work to obtain sufficient appropriate audit evidence to address the risks of material misstatement. The main changes relevant to your audit are outlined below:

### Enhanced risk identification and assessment

The standard has enhanced the requirements for the auditor to understand the entity and its environment as well as the applicable financial reporting framework to identify the newly introduced inherent risk factors to drive risk identification and assessment (subjectivity, complexity, uncertainty, change, and susceptibility to misstatement due to management bias or fraud). Using these inherent risk factors, the auditor assesses inherent risk on the “spectrum of inherent risk”, at which the higher end lies significant risks, to drive a more focused response to the identified risks. It should also be noticed that the standard requires the auditor to obtain sufficient, appropriate audit evidence from these risk identification and assessment procedures to form the basis of their risk assessment.

The standard also increases the focus on auditors identifying the assertions where the inherent risk lays. For clarity, we include a table of assertions:

Completeness	Is the balance complete?
Accuracy & valuation	Are transactions accurately recorded and assets and liabilities appropriately measured?
Classification	Is the balance classified correctly?
Occurrence	Did the transaction occur?
Existence	Does the item exist?
Rights & obligations	Does the entity own the item?
Cut-off	Is the item recorded in the correct financial year?
Presentation & disclosure	Is the item presented in the accounts appropriately?



# 3. Revised ISA 315

## Consideration of account balances and assessing inherent risks

Under the revised ISA 315 we will make an assessment of the inherent risks associated with the Council's transactions, balances and disclosures. We then determine whether each transaction, balance and disclosure is a 'significant account' (i.e. a significant class of transactions, balances and disclosures) and identify the assertions that are relevant. We then consider the controls the Council has in place and conclude whether or not we consider the audit risk associated to each item to be significant, i.e. after taking into account the controls in place is there a significant risk of material misstatement in relation to the relevant assertion. In addition, the revised ISA requires auditors to document more closely the key business process associated with each significant account with a focus on the processes for how transactions are initiated, recorded, processed, and incorporated into the general ledger.

## Greater emphasis on IT

In response to constantly evolving business environments, the standard has placed an increased emphasis on the requirements for the auditor to gain an understanding of the entity's IT environment to better understand the possible risks within an entity's information systems. As a result, auditors are required to gain a greater understanding of the IT environment, including IT general controls (ITGCs). However, the standard acknowledges the fact that there is a need for scalability in gaining this understanding and provides more detailed guidance on how to approach the topic depending on the complexity of the commercial software and/or IT applications.

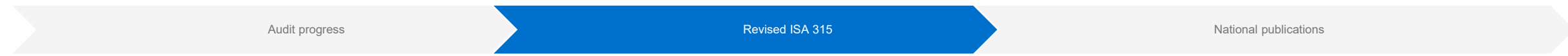
## Increased focus on controls

Off the back of the emphasis for auditors to gain a greater understanding of the IT environment, the standard has also widened the scope of controls deemed relevant to the audit. Auditors are now required to increase their understanding of controls implemented by management, as well as assess the design and implementation of those controls, which include ITGCs.

## Impact on the audit of the Council

Our risk assessment procedures will be more granular than in previous years and we will be seeking information from the Council to ensure that we can document our detailed understanding of the Council and the environment that it operates in. This will build on the existing strong knowledge of the Council we already have obtained from handover procedures with Audit Scotland. In documenting our risk assessment, we will need to input additional time to assess inherent risks of the spectrum that the auditing standard requires.

In terms of IT, we will establish an understanding of the Council's IT environment and at this stage are not aware of any significant changes from 2021/22. We will keep this under review as part of our audit. We do not plan to test ITGCs as we have designed our approach to gain assurance from substantive testing, which in our view remains the most efficient approach to take.



Audit progress

Revised ISA 315

National publications

# Contact

## Mazars

Partner: Cameron Waddell

Email: [cameron.waddell@mazars.co.uk](mailto:cameron.waddell@mazars.co.uk)

Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

\*where permitted under applicable country laws.

**[www.mazars.com](http://www.mazars.com)**

# Follow us:

## LinkedIn:

[www.linkedin.com/company/Mazars](http://www.linkedin.com/company/Mazars)

## Twitter:

[www.twitter.com/MazarsGroup](http://www.twitter.com/MazarsGroup)

## Facebook:

[www.facebook.com/MazarsGroup](http://www.facebook.com/MazarsGroup)

## Instagram:

[www.instagram.com/MazarsGroup](http://www.instagram.com/MazarsGroup)

## WeChat:

ID: Mazars