

# Argyll and Bute Council

## Audit Committee

### External Audit Progress Report



Prepared for Argyll & Bute Council  
September 2013

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 2012/13 Argyll and Bute Council (ABC) audit was presented to the Audit Committee on 15 March 2013. The audit plan set out the key risks facing ABC in financial year 2012/13, 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 2012/13 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 the CIPFA code of practice for internal audit in local government. 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                   | • Financial ledger    |
| • Payroll                       | • Treasury management |
| • Trade Payables and Purchasing | • Capital accounting. |

4. We issued a letter to the Head of Strategic Finance in March 2013 advising him of those areas of internal audit work that we planned to rely upon. We also shared our financial systems audit programmes with internal audit so that they could make use of them, as appropriate, when carrying out testing on key controls.
5. **Internal Controls.** We have updated our knowledge of the organisation in relation to governance and accountability and completed our preliminary 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 28 June 2013.
6. **ICT computer audit activity.** ABC exchanges data with many other public bodies for example, benefit information with DWP; the social work and education departments exchange information with the police, Criminal Justice partnership and Children Hearings; and information on births, deaths and marriages is shared with the General Register of Scotland.

7. Government Secure Intranet (GSI) is the mechanism that allowed the council to share data and services. The council reapplies annually to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
8. From November 2012 all applicants have to apply to connect to PSN which means complying with the stricter PSN Code of Connection. The new code of connection is challenging and uncompromising about security measures, with the aim of providing a substantial level of trust between organisations. ABC's first submission was rejected and the council is now at stage two and due to resubmit. Current GSX accreditation will expire on 26th September.
9. As a result of this ongoing work, an update on the PSN issue will be incorporated within our 2012/13 annual audit report in October 2013 together with an update on our Computer Services Review from last year.

## Financial Statements

10. We received the unaudited financial statements on 28 June 2013, in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team.
11. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in a matters arising schedule issued to the Finance Manager - Corporate Support over the course of the audit. This schedule was finalised and agreed on the 28 August 2013. The more significant issues arising were discussed with the Head of Strategic Finance at a meeting on 10 September 2013.
12. 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 2012/13.

## Performance Audit and Best value

13. In February Audit Scotland was asked by ABC to investigate some issues raised about the Council's dealings with an external company, The Actual Reality Learning and Leadership Company Limited, which became The Actual Reality Trust in March 2013. Our response explained that it was not appropriate for Audit Scotland carry out work on all of the issues raised. However it was confirmed that the sales of Castle Toward and Ardentenny would be reviewed as part of the 2012/13 annual audit, and that targeted audit work would be carried out to review member to member and member to officer relationships. The results of the work on the property sales will be included within our 2012/13 annual audit report in October 2013. The work on member to member and member to officer relationships is currently progressing and will be the subject of a separate report.
14. Audit Scotland's Performance Audit 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 Managing early departures from the Scottish public sector (published May 2013) and Maintaining Scotland's roads (published May 2013). The National Scrutiny Plan for Local Government was published in April 2013.

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](http://www.audit-scotland.gov.uk)).
16. **Impact reports.** As part of our commitment to maximising the impact of our work, a targeted follow up review was undertaken of ABC's response to the Audit Scotland report 'Scotland's Public Finances: Addressing the Challenges' (August 2011). The aim of the local follow-up work was to assess how the council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability. The report arising from our review has recently been agreed by the council and will be submitted to this meeting of the Audit Committee.

# Technical Bulletins

17. 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 June 2013 (TB 2013/2). Key issues relating to the local authority sector are summarised at Appendix 2 for information.
18. It should be noted that the matters highlighted in Appendix 2 are not exhaustive; they highlight some of the key issues.

# Appendix 1

## 2012/13 Planned Outputs

Outturn against 2012/13 annual audit plan as at 16 September 2013

Planned outputs	Planned reporting date	Date draft report submitted	Management response to draft	Final report submitted
<b>Governance</b>				
Internal audit reliance letter	28/02/2013			4/03/2013
Annual audit plan	28/02/2013	25/02/2013	1/03/2013	04/03/2013
Internal controls management letter	31/07/2013	28/06/2013	10/09/2013	13/09/2013
ICT review	31/08/2013	Update to be incorporated within Annual Report		
<b>Financial Statements</b>				
Report to management in terms of ISA 260 (Communication of audit matters to those charged with governance)	30/09/2013			
Independent auditor's report on the financial statements	30/09/2013			
Annual report to Members	31/10/2013			
<b>Performance</b>				
'Scotland's Public Finances: Addressing the Challenges'- Follow up review	31/08/2013	2/09/2013	10/09/2013	13/09/2013



# Appendix 2

## Summary of Technical Bulletin issues

2013/2: June 2013

Topic	Issue
<b>2013/14 Code</b>	<ul style="list-style-type: none"> <li>• The CIPFA/LASAAC Local Authority Code Board has issued the edition of the Code which specifies local authority accounting requirements for 2013/14. It sets out the principles and practices of accounting required to give a ‘true and fair’ view of the financial position and transactions of a local authority, including group financial statements where the authority has material interests in subsidiaries, associates or joint ventures. In Scotland, the Code constitutes proper accounting practice under section 12 of the Local Government in Scotland Act 2003.</li> <li>• Significant changes to the Code include the following:               <ul style="list-style-type: none"> <li>– Non-domestic rates</li> <li>– Property, plant and equipment</li> <li>– Leases</li> <li>– Service concession arrangements</li> <li>– Employee benefits</li> </ul> </li> </ul>
<b>2012/13 report on actuarial information</b>	<ul style="list-style-type: none"> <li>• PwC has prepared a report called Review of IAS 19 reporting to provide support to auditors when assessing the actuaries who produce retirement benefits figures under IAS 19 as at 31 March 2013. The report was commissioned by Audit Scotland (and the other UK audit agencies) and covers the local government, police and fire pension schemes. The work carried out for the report involved assessing the competence and objectivity of, and assumptions and approach adopted by, the relevant actuaries.</li> <li>• The work found that actuaries signing-off the calculation of the figures are appropriately qualified, and the actuarial firms are experienced and well-reputed. There are no known circumstances which would impair their objectivity to produce the figures.</li> </ul>
<b>Significant trading operations</b>	<ul style="list-style-type: none"> <li>• LASAAC and the CIPFA Directors of Finance (Scotland) Section has issued Significant trading operations consolidated guidance</li> </ul>

Topic	Issue
	<p>to provide updated guidance on the identification of significant trading operations.</p> <ul style="list-style-type: none"> <li>• The most noteworthy aspect of the guidance is that it advises that the identification of a significant trading operation should focus only on those services or activities which are external to the local authority as a single entity. This should exclude activities that are statutory in nature such as care home services. Any internal trading would be subject to the duty to secure best value but not the legislation relating to trading operations and accounts.</li> </ul>