Annual Audit Plan

Argyll and Bute Council

Year ending 31 March 2024

mazars

Contents

Annual Audit Plan – Year ending 31 March 2024

mazars

Mazars LLP
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Audit and Scrutiny Committee
Argyll and Bute Council
Lochgilphead
Argyll
PA31 8RT

24 May 2024

Dear Audit and Scrutiny Committee Members

Annual Audit Plan – Year ending 31 March 2024

We are pleased to present our Audit Strategy Memorandum for Argyll and Bute Council for the year ending 31 March 2024. The purpose of this document is to summarise our audit approach, highlight significant audit risks and areas of key judgements and provide you with the details of our audit team. As it is a fundamental requirement that an auditor is, and is seen to be, independent of its clients, section 7 of this document also summarises our considerations and conclusions on our independence as auditors. We consider two-way communication with you to be key to a successful audit and important in:

- reaching a mutual understanding of the scope of the audit and the responsibilities of each of us;
- sharing information to assist each of us to fulfil our respective responsibilities;
- providing you with constructive observations arising from the audit process; and
- ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance and other risks facing Argyll and Bute Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, we see this document, which has been prepared following our initial planning discussions with management, as being the basis for a discussion around our audit approach, any questions, concerns or input you may have on our approach or role as auditor. This document also contains an appendix that outlines our key communications with you during the course of the audit and forthcoming accounting issues and other issues that may be of interest to you.

Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me on 0191 383 6339.

Yours faithfully

Mark Outterside (Director)

Mazars LLP

01

Section 01:

Engagement and responsibilities summary

1. Engagement and responsibilities summary

Overview of engagement

We are appointed to perform the external audit of Argyll and Bute Council for the year to 31 March 2024. The scope of our engagement is set out in the Code of Audit Practice, issued by the Auditor General and the Accounts Commission available from the Audit Scotland website: [Code of audit practice | Audit Scotland (audit-scotland.gov.uk)](). Our responsibilities are principally derived from the Local Government (Scotland) Act 1973 (the 1973 Act) and the Code of Audit Practice, as outlined below and overleaf.

Engagement area	Responsibilities
Audit opinion	We are responsible for forming and expressing an independent opinion on whether the financial statements are prepared, in all material respects, in accordance with all applicable statutory requirements. Our audit does not relieve management or the Audit and Scrutiny Committee, as Those Charged With Governance, of their responsibilities. The Section 95 Officer is responsible for the assessment of whether is it appropriate for the Council to prepare its accounts on a going concern basis. As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on: a) whether a material uncertainty related to going concern exists; and b) consider the appropriateness of the Section 95 Officer's use of the going concern basis of accounting in the preparation of the financial statements.
Internal control	Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We are responsible for obtaining an understanding of internal control relevant to our audit and the preparation of the financial statements to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.

1. Engagement and responsibilities summary

Overview of engagement (continued)

	Engagement area	Responsibilities
	Fraud	The responsibility for safeguarding assets and for the prevention and detection of fraud, error and non-compliance with law or regulations rests with both Those Charged With Governance and management. This includes establishing and maintaining internal controls over compliance with relevant laws and regulations, and the reliability of financial reporting. As part of our audit procedures in relation to fraud we are required to enquire of those charged with governance, including key management and internal audit as to their knowledge of instances of fraud, the risk of fraud and their views on internal controls that mitigate the fraud risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit so as to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. However, our audit should not be relied upon to identify all such misstatements.
	Wider reporting	We report to the National Audit Office on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. The level of auditor assurance required depends on monetary thresholds set by HM Treasury.
	Wider scope and Best Value	We are also responsible for reviewing and reporting on the wider scope arrangements that the Council has in place and its arrangements to secure Best Value. We discuss our approach to wider scope and Best Value work further in section 5 of this report.

02

Section 02:

Your audit engagement team

2. Your audit engagement team

Below is your audit engagement team and their contact details.

Mark Outterside

Engagement Leader

mark.outterside@mazars.co.uk

07824 086 593

Gregory Oduor

Engagement Manager

gregory.oduor@mazars.co.uk

07974 124 461

Alfred Mugani

Team Leader

alfred.mugani@mazars.co.uk

0781 569 0995

We will utilise Mazars experts on this engagement in the following area: valuation of property, plant and equipment.

03

Section 03:

Audit scope, approach and timeline

3. Audit scope, approach and timeline

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 the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, 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 concept of materiality and how we define a misstatement is explained in more detail in section 8.

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

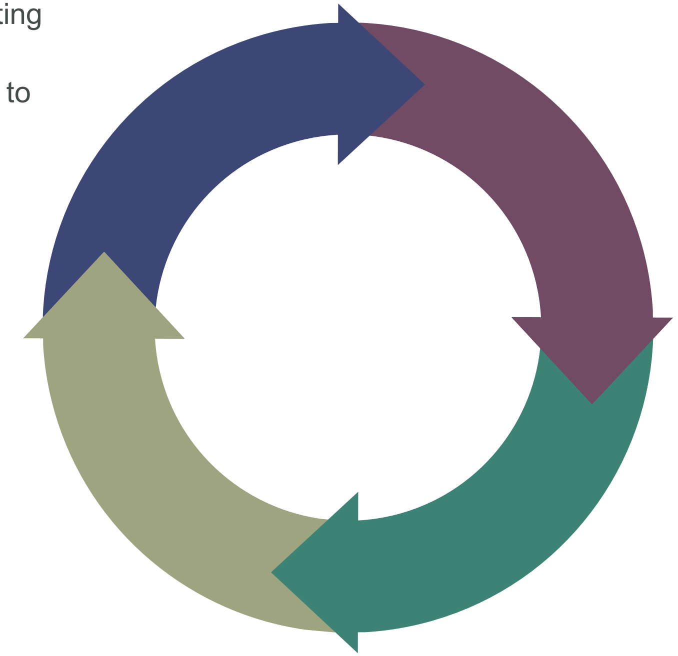
3. Audit scope, approach and timeline

Planning and Risk Assessment (April to May 2024)

- Planning visit and developing our understanding of the Council
- Initial opinion and wider scope risk assessments
- Risk identification and assessment
- Considering proposed accounting treatments and accounting policies
- Developing the audit strategy and planning the audit work to be performed
- Agreeing timetable and deadlines
- Risk assessment analytical procedures
- Determination of materiality

Interim (June to July 2024)

- Documenting systems and controls
- Performing walkthroughs
- Testing of IT general controls
- Reassessment of audit plan and revision if necessary



Fieldwork (July to October 2024)

- Receiving and reviewing draft financial statements
- Delivering our audit strategy starting with significant risks and high-risk areas including detailed testing of transactions, account balances and disclosures
- Communicating progress and issues
- Clearance meeting

Completion (December 2024)

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

3. Audit scope, approach and timeline

Reliance on internal audit

We will meet with internal audit to discuss their work and findings, to inform our understanding of the Council's key business processes and to update our risk assessment. If appropriate, we will seek to place reliance on internal audit's work on the Council's key business processes and will perform our own procedures to determine its adequacy for our audit. During the audit, we will meet with internal audit to discuss the progress and findings of their work prior to the commencement of our controls' evaluation procedures.

Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the Council that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any relevant service organisations.

Management's and our experts

Management makes use of experts in specific areas when preparing the Council's financial statements. We also use experts to assist us to obtain sufficient appropriate audit evidence on specific items of account.

Item of account	Management's expert	Our expert
Defined benefit liability/Asset	Hymans Robertson (Strathclyde Pension Fund)	We make use of PWC actuarial services who are commissioned by the NAO to review the national analysis of pension trends and assumptions of the various LGPS actuaries
Property, plant and equipment valuation	Council's in-house Valuer	We will review the analysis of property valuation movements available from third parties and consider the outcome of the Council's valuations in comparison with these, challenging conclusions as appropriate. We have also engaged the Mazars Property Valuation team to assist in our valuations work, including a review the Council's DRC valuation methodology.
Financial instrument disclosures	Link Asset Services (formerly Capita)	No expert required.

3. Audit scope, approach and timeline

Group audit approach

The scope of our audit is based on an analysis of the risks we have identified at the group level. When scoping our audit, we have considered quantitative criteria (the contribution of the group's consolidated components to the group financial statements) and qualitative criteria (risks of material misstatement that consolidated components may present individually). A further analysis will be performed on the other entities to verify they do not present any other risks. Where necessary, we will include some of these subsidiaries in our audit scope.

Our review of the group boundary is not complete; however, the nature and extent of audit work we expect to perform on the consolidated components is set out below:

Entity	Identifier	% Group Expenditure	Location	Auditor	Scope
Argyll and Bute Council (parent)	Parent – local authority	98.6%	Kilmory, Lochgilphead, Argyll, PA31 8RT	Mazars LLP	Full
Argyll and Bute Integration Joint Board	Joint venture between the Council and NHS Highland with responsibility for health and social care functions.	0.3%	Campbeltown PA28 6LE	Mazars LLP	Full
Dunbartonshire and Argyll & Bute Valuation Joint Board	Joint Board responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils.	0.3%	Kilbrannan House, Bolgam St, Campbeltown PA28 6JY	Mazars LLP	Full
Live Argyll	100% owned subsidiary of the Council, which provides a wide range of services within the area including libraries, leisure facilities, halls, sports development and community centres.	0.8%	Campbeltown Aqualibrium. Kinloch Road, Campbeltown, Argyll PA28 6EG	Mazars LLP	Specific
Common Good Accounts	The Council administers the Common Good Accounts for several former Burghs.	-	Kilmory, Lochgilphead, Argyll, PA31 8RT	N/A	N/A

3. Audit scope, approach and timeline

Audit of trusts registered as Scottish charities

The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The 2006 Regulations require charities to prepare annual accounts and an auditor to prepare a report to the charity trustees 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.

Members of the Council are the sole trustees for 7 trusts registered as Scottish charities, with total assets of circa £800,000. 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.

We have not identified any significant risks, other than the risk of management override of controls which we have also identified as a risk for the Council's annual accounts, for the financial statements of the Council's charitable trusts.

04

Section 04:

Significant risks and other key judgement areas

4. Significant risks and other key judgement areas

Following the risk assessment approach discussed in section 3 of this document, we have identified risks relevant to the audit of financial statements. The risks that we identify are categorised as significant, enhanced or standard. The definitions of the level of risk rating are given below:

Significant risk

A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.

Enhanced risk

An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to:

- Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and
- Risks relating to other assertions and arising from significant events or transactions that occurred during the period.

Standard risk

A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a 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. We have summarised our audit response to these risks on the next page.

4. Significant risks and other key judgement areas

Specific identified audit risks and planned testing strategy

We have presented below in more detail the reasons for the risk assessment highlighted above, and also our testing approach with respect to significant risks. An audit is a dynamic process, should we change our view of risk or approach to address the identified risks during the course of our audit, we will report this to the Audit and Scrutiny Committee.

Significant risks

	Description	Fraud	Error	Judgement	Planned response
1	**Management override of controls** This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur. Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.	●	○	○	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will address the risk through performing audit procedures covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
2	**Valuation of the net defined benefit (liability)/surplus** As at 31 March 2023, the net defined benefit surplus was £139m (2022/23 - 4.6 Million). The valuation of the Council’s net liabilities/assets includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council’s employees and other appropriate data. Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.	○	●	●	We will address this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary by the fund administrators (Strathclyde Pension Fund). We will : • challenge the reasonableness of the Actuary’s assumptions that underpin the relevant entries made in the financial statements; • critically assess the competency, objectivity and independence of the Actuary; • liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively; • compare assumptions to expected ranges; and • agree data in the Actuary’s valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council’s financial statements.

4. Significant risks and other key judgement areas

Significant risks (continued)

	Description	Fraud	Error	Judgement	Planned response
3	**Valuation of property, plant and equipment** The Council held land and buildings (including council dwellings) with a net book value of £451 million at 31 March 2023. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five-year cycle. This may result in individual assets not being revalued for several years. This creates a risk that the carrying value of those assets that have been revalued in year is materially different from the year end fair value. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.	○	●	●	We will address this risk through: • assessing the scope and terms of engagement with the in-house Valuer; • assessing the competence, skills and objectivity of the in-house Valuer; • assessing how management use the in-house Valuer's report to value land and buildings included in the financial statements; • testing the accuracy of the data used in valuations; • challenging the Council and in-house Valuer's assumptions and judgements applied in the valuations; • reviewing the valuation methodology used, including the appropriateness of the valuation basis; • considering the reasonableness of the valuation by comparing the valuation output with market intelligence; • testing a sample of revaluations in the year, by agreeing the revaluations recorded in the Annual Accounts to the in-house valuer's reports. As part of this testing, we will check whether the movements have been accounted for in accordance with the Code; • challenging management's assessment for those assets not subject to valuation in the year; • For those valued on Existing Use Value on a market comparable basis, we will check market movements to assess the materiality of potential movement for 2023/24; and • For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we will test management's analysis of changes in the Build Costs Information Service (BCIS) index and assess any decisions management make this regard. We will engage the Mazars Real Estate Valuation Team to assist us with the above.

4. Significant risks and other key judgement areas

Other key areas of management judgement and enhanced risks

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

	Description	Fraud	Error	Judgement	Planned response
4	**Accounting for PFI and PPP contracts** The Council currently operates three Private Finance Initiative (PFI), or similar, contracts which are accounted for as Service Concession arrangements under IFRIC12 – Service Concession Arrangements. The Council has determined that in the case of the Schools NPDO contract and the new Schools DBFM contract, the Council has control over the services provided through use of the schools and that a qualifying asset has been created. Therefore, the assets are included on the Council's Balance Sheet along with a finance lease liability. The Council also operates a Waste Management PPP contract. In this case the Council determined that a "qualifying asset" has not been created and that the Council does not have significant control over the services being provided. Therefore, the asset has not been included on the Council's Balance Sheet and payments to the contractor are charged to the appropriate service line within the Comprehensive Income and Expenditure Account. The method of accounting for PFI and PP assets can be complex and involves management judgement as set out in Note 3 to the financial statements. Therefore, there is a potential risk of material misstatement if the Council fails to appropriately account for these assets.	○	●	●	We will: • review the Council's adopted approach for accounting for its PFI arrangements; • review any changes from prior years to the long-term financial model used; • critically review the assumptions made by management; and • assess the completeness and accuracy of disclosures.

05

Section 05:

Wider scope and Best Value

5. Wider scope and Best Value

The framework for wider scope work

The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. We are required to form a view on the adequacy of the Council's arrangements in four areas:

1. **Financial management**
2. **Financial sustainability**
3. **Vision, leadership, and governance**
4. **Use of resources to improve outcomes.**

Financial management	Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management.
Financial sustainability	Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. Auditors consider the extent to which audited bodies have shown regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so that it can continue to deliver services.
Vision, leadership and governance	Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation. Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. They also consider the effectiveness of governance arrangements for delivery.
Use of resources to improve outcomes	Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. Auditors consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

5. Wider scope and Best Value

Our approach

Our planned audit work against the four wider scope areas is risk based and proportionate. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses. We will carry out more detailed work where we identify significant risks. Where significant weaknesses are identified we will report these to the Council and make recommendations for improvement. In addition to local risks, we consider challenges that are affecting the public sector as a whole.

Best Value

Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. Best Value at the Council will be assessed over the period of the audit appointment. We will also follow up previously reported Best Value findings to assess the pace and depth of improvement. This work will be integrated into our audit approach, including our work on the wider scope areas.

We will also conduct thematic reviews as directed by the Accounts Commission. In 2023/24 this will be on workforce innovation. We will prepare a separate management report to document the findings of this work.

At least once every five years, the Controller of Audit will report to the Accounts Commission on the Council's performance in meeting its Best Value duties. The Council is included in the second year of the programme which runs from October 2024 to August 2025.

5. Wider scope and Best Value

Wider scope risks

The Code of Audit Practice requires us to consider the significant audit risks in areas defined in the Code as the wider scope audit.

Although we have not fully completed our planning and risk assessment work, the table below outlines the wider scope audit risks that we have identified to date. We will report any further identified risks to the Audit and Scrutiny Committee on completion of our planning and risk identification work.

	Description	Financial management	Financial sustainability	Vision, leadership and governance	Use of resources to improve outcomes	Planned procedures
1	**Financial Sustainability** The 2024/25 budget highlighted a balanced budget after measures to address the initial in-year budget gap of £10.167m. However, that budget also highlighted a gap of £4.734m in 2025/26 rising to a cumulative budget gap of £50.084m by the end of 2028/29 based upon a 'midrange' scenario. The Council's 'worst case' scenario highlights a potential £187.840m cumulative budget gap by the end of 2028/29. There are also anticipated pressures on capital planning, with a total gap in the capital programme of £29.843m. This represents a risk in relation to financial sustainability, impacting on the future provision of services in the Council's area.	○	●	○	○	As part of our audit we will review the Council's: medium to long term financial strategy; • financial position and track record in delivering planned recurrent and non-recurrent savings in 2023/24; • financial performance in 2024/25 and updates to its financial planning during the year, including the implications for general reserves balances; • regular reporting to Members on financial performance, savings plans and financial risks; • progress in developing plans to address future years budget gaps; and • plans to address the gaps in the capital programme.

06

Section 06:

Fees for audit and other services

6. Fees for audit and other services

Fees for audit and other services

Our fees for the audit of the Council's financial statements for the year ended 31 March 2024 are outlined below.

Fees for work as the Council's appointed auditor

At this stage of the audit, we are not planning any divergence from the expected fees set by Audit Scotland, which is available on the Audit Scotland website: Audit Scotland expected fees for 2023/24 audits.

	2023/24 Proposed Fee	2022/23 Actual Fee
Auditor remuneration	£251,690	£237,440
Pooled costs	£9,170	£0
Contribution to PABV costs	£63,850	£57,770
Audit support costs	£0	£9,000
Sectoral cap adjustment	(£110)	(£2,030)
Additional testing required to reflect the transition to a new ledger in 202/23	0	£4,225
Total fee	**£324,600**	**£310,465**

We will agree separately with the Council on the Fee for the Charitable Trusts for the 2023/24 audit (prior year £6,500). We have not provided any non-audit services to the Charitable Trusts in 2023/24.

Services provided to other entities within the Council's group

In addition, to auditing the Council's 7 charitable trusts, we are providing audit services to the following entities in the Council's group:

- Argyll and Bute Integration Joint Board (total fee of £33,360)
- Dunbartonshire and Argyll & Bute Valuation Joint Board (total fee of £9,320).
- Live Argyll (estimated total fee for 2023/24 of £18,200).

07

Section 07:

Our commitment to independence

7. Our commitment to independence

	Requirements	We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Ethical Standard 2019.
	Compliance	We are not aware of any relationship between Mazars and Argyll and Bute Council Argyll and Bute Council that, in our professional judgement, may reasonably be thought to impair our independence. We are independent of Argyll and Bute Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.
	Non-audit and Audit fees	We have set out a summary any non-audit services provided by Mazars (with related fees) to Argyll and Bute Council in Section 6, together with our audit fees and independence assessment.

7. Our commitment to independence

We are committed to independence and confirm that we comply with the FRC's Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with Mark Outterside in the first instance.

Prior to the provision of any non-audit services, Mark Outterside will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Framework Agreement issued by Audit Scotland available from the Audit Scotland website: Audit Scotland Framework Agreement (audit-scotland.gov.uk). Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.

08

Section 08:

Materiality and misstatements

8. Materiality and misstatements

Definitions

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

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

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit and Scrutiny Committee.

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 a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provide a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality 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.

8. Materiality and misstatements

Materiality (continued)

For the consolidated and parent financial statements, we consider that gross revenue expenditure at surplus/deficit level is the key focus of users of the financial statements and, as such, we base our materiality levels around this benchmark.

We expect to set a materiality threshold of 2% of gross revenue expenditure at surplus/deficit level for the consolidated financial statements, and a materiality threshold of 2% of gross revenue expenditure at surplus/deficit level for the parent company.

As set out in the tables alongside, based on currently available information, being the prior period signed financial statements we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £9.665 (£9.665m in the prior year), and performance materiality to be in the region of £6,766m (£5.799m in the prior year).

For the Council, we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £9.529m (£9.529m in the prior year), and performance materiality to be in the region of £6.670m (£5.717m in the prior year).

As set out in the tables overleaf, for Argyll and Bute Charitable Trusts, we anticipate overall materiality for the year ended 31 March 2024 to be in the region of £15,359 (£15,359 in the prior year), and performance materiality to be in the region of £10,751 (£9,215 in the prior year).

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

Consolidated financial statements

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£9,665	£9,665
Performance materiality	£6,766	£5,799
Clearly trivial	£290	£250
Specific Materiality: Remuneration Report	£1 for senior councillors and senior employees' remuneration and pensions benefits 1 banding for Employees' remuneration 1 banding for exit packages	

Council financial statements

	2023/24 £'000s	2022/23 £'000s
Overall materiality	£9,529	£9,529
Performance materiality	£6,670	£5,717
Clearly trivial	£286	£250
Specific Materiality: Remuneration Report	£1 for senior councillors and senior employees' remuneration and pensions benefits 1 banding for Employees' remuneration 1 banding for exit packages	

8. Materiality and misstatements

Materiality (continued)

Argyll and Bute Charitable Trusts statements

	2023/24	2022/23
Overall materiality	£15,359	£15,359
Performance materiality	£10,751	£9,215
Clearly trivial	£461	£461
Specific Materiality: Remuneration Report	£1 for senior councillors and senior employees' remuneration and pensions benefits 1 banding for Employees' remuneration 1 banding for exit packages	

8. Materiality and misstatements

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Audit and Scrutiny Committee and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £290k for the Group and £286k for the Council, based on 3% of overall materiality. If you have any queries about this, please raise these with Mark Outterside.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit and Scrutiny Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on our audit opinion.

Misstatements also cover quantitative misstatements, including those relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit and Scrutiny Committee as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

A

Appendices

A: Key communication points

B: Current year updates, forthcoming accounting & other issues

Appendix A: Key communication points

We value communication with Those Charged With Governance as a two way feedback process at the heart of our client service commitment. ISA 260 (UK) ‘Communication with Those Charged with Governance’ and ISA 265 (UK) ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Annual Audit Plan; and
- Our Annual Audit Report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Annual Audit Plan

Our responsibilities in relation to the audit of the financial statements;

- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Annual Audit Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix A: Key communication points

ISA (UK) 260 ‘Communication with Those Charged with Governance’, ISA (UK) 265 ‘Communicating Deficiencies In Internal Control To Those Charged With Governance And Management’ and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and those charged with governance.	Annual Audit Plan
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Annual Audit Plan
With respect to misstatements: • uncorrected misstatements and their effect on our audit opinion; • the effect of uncorrected misstatements related to prior periods; • a request that any uncorrected misstatement is corrected; and • in writing, corrected misstatements that are significant.	Annual Audit Report
With respect to fraud communications: • enquiries of the Audit and Scrutiny Committee to determine whether they have a knowledge of any actual, suspected or alleged fraud affecting the entity; • any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • a discussion of any other matters related to fraud.	Annual Audit Report and discussion at Audit and Scrutiny Committee Audit Planning and Clearance meetings

Appendix A: Key communication points

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • non-disclosure by management; • inappropriate authorisation and approval of transactions; • disagreement over disclosures; • non-compliance with laws and regulations; and • difficulty in identifying the party that ultimately controls the entity.	Annual Audit Report
Significant findings from the audit including: • our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • significant difficulties, if any, encountered during the audit; • significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • written representations that we are seeking; • expected modifications to the audit report; and • other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Council or the Audit and Scrutiny Committee in the context of fulfilling their responsibilities.	Annual Audit Report
Significant deficiencies in internal controls identified during the audit.	Annual Audit Report
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Annual Audit Report

Appendix A: Key communication points

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off) and enquiry of the Audit and Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Scrutiny Committee may be aware of.	Annual Audit Report and the Audit and Scrutiny Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • whether the events or conditions constitute a material uncertainty; • whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • the adequacy of related disclosures in the financial statements.	Annual Audit Report
Reporting on the valuation methods applied to the various items in the annual Council and Group financial statements including any impact of changes of such methods	Annual Audit Report
Communication regarding our system of quality management, compliant with ISQM 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, the firm's ISQM 1 team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on the firm's System of Quality Management: • Ensure there is an appropriate assignment of responsibilities under ISQM1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review and update quality risks each quarter, taking into consideration of number of input sources (such as FRC / ICAEW review findings, AQT findings, RCA findings, etc.) • Identify, design and implement responses as part of the process to strengthen the firm's internal control environment and overall quality • Evaluate responses to identify and remediation process / control gaps We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website here.	Annual Audit Plan

Appendix A: Key communication points

Required communication	Where addressed
Explanation of the scope of consolidation and the exclusion criteria applied by the entity to the non-consolidated entities, if any, and whether those criteria applied are in accordance with the relevant financial reporting framework.	Annual Audit Plan and/or Annual Audit Report as appropriate
Where applicable, identification of any audit work performed by component auditors in relation to the audit of the consolidated financial statements other than by Mazars' member firms.	Annual Audit Plan and/or Annual Audit Report as appropriate
Indication of whether all requested explanations and documents were provided by the entity	Annual Audit Report

Appendix B: Current year updates, forthcoming accounting & other issues

Applicable for IFRS Reporters

Current and forthcoming accounting issue (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2023

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements*: Disclosure of Accounting Policies (Issued February 2021)

- The amendments set out new requirements for material accounting policy information to be disclosed, rather than significant accounting policies. Immaterial accounting policy information should not be disclosed as accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*: Definition of Accounting Estimates (Issued February 2021)

- The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events.

IFRS 17 *Insurance Contracts* (issued May 2017) and Amendments to IFRS 17 *Insurance Contracts* (Issued June 2020)

- IFRS 17 is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities.

Amendments to IFRS 17 *Insurance Contracts:* Initial Application of IFRS 17 and IFRS 9 *Financial Instruments* (Issued December 2021)

- The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis.

IFRS 17 Insurance Contracts has not yet been adopted by the FReM. Adoption in the FReM is expected to be from April 2025; early adoption is not permitted.

Appendix B: Current year updates, forthcoming accounting & other issues

Applicable for IFRS Reporters

Current and forthcoming accounting issue (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2024

The information detailed on this slide is for wider IFRS information only. They will be subject to inclusion within the FReM and Code as determined by FRAB.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Issued January 2020), Deferral of Effective Date (Issued July 2020) and Non-current Liabilities with Covenants (Issued October 2022)

- The January 2020 amendments clarify the requirements for classifying liabilities as current or non-current in IAS 1 by providing clarification surrounding: when to assess classification; understanding what is an ‘unconditional right’; whether to determine classification based on an entity’s right versus discretion and expectation; and dealing with settlements after the reporting date.

  The October 2022 amendments specify how covenants should be taken into account in the classification of a liability as current or non-current. Only covenants with which an entity is required to comply with by the reporting date affect the classification as current or non-current. Classification is not therefore affected if the right to defer settlement of a liability for at least 12 months is subject to compliance with covenants at a date after the reporting date. These amendments also clarify the disclosures about the nature of covenants, so that users of financial statements can assess the risk that non-current debts accompanied by covenants may become repayable within 12 months.

Amendments to IAS 16 *Leases*: Lease Liability in Sale and Leaseback (Issued September 2022)

- The amendments include additional requirements to explain how to subsequently measure the lease liability in a sale and leaseback transaction, specifically how to include variable lease payments.

For further information, please refer to our blog article: *Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback*

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued May 2023)

- The amendments introduce changes to the disclosure requirements around supplier finance arrangements with the intention of providing more detailed information to help users analyse and understand the effects of such arrangements.

  The amendments provide an overarching disclosure objective to ensure that users of financial statements are able to assess the effects of such arrangements on an entity’s liabilities and cash flows, as well as some additional disclosure requirements relating to the specific terms and conditions of the arrangement, quantitative information about changes in financial liabilities that are part of the supplier financing arrangement, and about an entity’s exposure to liquidity risk.

  For further information, please refer to our blog article: *IASB publishes final amendments on supplier finance arrangements*

Mark Outterside (Audit Director)

Mazars
26 Mosley Street

Newcastle upon Tyne

NE1 1DF

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.

Follow us:

LinkedIn:
www.linkedin.com/company/Mazars

Twitter:
www.twitter.com/MazarsGroup

Facebook:
www.facebook.com/MazarsGroup

Instagram:
www.instagram.com/MazarsGroup

WeChat:
ID: Mazars