

Public Document Pack

Argyll and Bute Council **Comhairle Earra Ghaidheal agus Bhoid**

Customer Services
Executive Director: Douglas Hendry



Kilmory, Lochgilphead, PA31 8RT
Tel: 01546 602127 Fax: 01546 604435
DX 599700 LOCHGILPHEAD

11 March 2014

SUPPLEMENTARY PACK 3

AUDIT COMMITTEE - COUNCIL CHAMBERS, KILMORY, LOCHGILPHEAD on FRIDAY, 14 MARCH 2014 at 11:15 AM

I enclose herewith items 4, 14 and 15 which were marked "to follow" on the Agenda for the above Meeting. Please note change of heading for item 14.

Douglas Hendry
Executive Director – Customer Services

ITEMS TO FOLLOW

- 4. MONITORING OF STRATEGIC RISK REGISTER**
Report by Head of Strategic Finance (Pages 1 - 16)
- 14. ANNUAL AUDIT PLAN 2014/15 - DRAFT**
Report by Grant Thornton (Pages 17 - 36)
- 15. EXTERNAL AUDIT PLAN**
Report by Audit Scotland (Pages 37 - 58)

AUDIT COMMITTEE

Martin Caldwell (Chair)
Councillor Maurice Corry
Councillor Iain MacDonald
Sheila Hill

Councillor Gordon Blair
Councillor Fred Hall
Councillor James Robb

Contact: Fiona McCallum

Tel. No. 01546 604392

This page is intentionally left blank

ARGYLL AND BUTE COUNCIL
STRATEGIC FINANCE

AUDIT COMMITTEE
14 MARCH 2014

MONITORING OF STRATEGIC RISK REGISTER

1. SUMMARY

- 1.1 This report updates committee members on the key strategic risks facing the Council, the associated mitigating actions and changes in these risks.
- 1.2 The strategic risk register (draft) is reviewed and updated on a live basis. As the process matures review updates will include the following key issues:
- The following risks have been added to the strategic risk register (SRR).
 - None this quarter but updated as required.
 - The following risks have been deleted from the SRR (risk score now zero).
 - None this quarter but updated as required.
 - The following risks are classed remain red after mitigation.
 - Population and Economic decline
 - The following risks have a raw score which classifies them as red but mitigation reduces the assessment to amber.
 - Welfare Reform
 - Income & Funding
 - Asset Base
 - Reputation
 - Demographics
 - Health and Social Care Integration
 - Political Leadership
 - These are the risks which have moved risk category (red/amber/green) in the last quarter.
 - None this quarter but updated as required.
 - These are the risks that are at variance from the agreed risk appetite.
 - None this quarter but updated as required.

2. RECOMMENDATIONS

- 2.1 Members to note content of report and further note the strategic risk register will be subject to a challenge review process at a SMT development meeting.

3. DETAIL

Background

- 3.1 The Council deferred a decision on a revised strategic risk register. The current

version therefore is still in “draft” format. Dates are currently being identified for a members’ seminar to discuss risk management and the content of the strategic risk register. It is hoped that this will take place May 2014.

- 3.2 Subject to council approval, the process for reviewing the strategic risk register is outlined below:
 - Designated risk owner to update in consultation with appropriate chief officers /service managers and spokespersons.
 - SMT to consider review report.
 - Strategic risk group consider the SRR at its meeting.
 - Performance Review and Scrutiny committee to consider review reports.
- 3.3 There are currently no material changes to the draft strategic risk register.
- 3.4 As the review process matures review reports will provide a summary of the main changes and trends in scoring and /or mitigation from quarter to quarter and from the start of the financial year. The reports will also identify any new or emerging risks and any risks which have been closed off or removed.
- 3.5 Strategic risks by their nature look at the longer term risks applicable to the organisation hence there is often limited movement between quarters however SRR management remains a live process.
- 3.6 There are currently 15 strategic risks identified. Appendix 1 details the draft SRR. SMT are scheduled to undertake a “do we have this right review” at a development meeting and will consider whether the risks identified are relevant and whether the scoring including mitigating actions are appropriate and reflective of the current issues facing the organisation. The review questions are detailed below.

Do we have this right?

- Is the strategic risk register reflective of the key issues facing the Council?
- Are the risks identified appropriate to the Council?
- Is the raw and residual scoring reflective of the status or profile of the risk?
- What is being done to manage the risk?
- Are the mitigating actions and control appropriate?
- Are there any gaps in control or mitigating actions which need addressed?
- Do controls or mitigating actions need escalated?
- What assurance does SMT have the risks are being actively managed?
- Should strategic risks be prioritised?

Risks Added To And Deleted From The SRR

- 3.7 The table below sets out any new risks that have been added to the SRR in the last quarter. (None this quarter)

--	--	--

- 3.8 The table below sets out any risks that have been removed from the SRR in the last quarter. This is because the likelihood and/or impact has now reduced or been mitigated to zero. (None this quarter)

Theme	Risk	Description	Previous Residual Score	Explanation For Removal

Red Risks

- 3.9 It is important to consider those risks that remain red even after mitigation and management action. The table below sets out detail of all of the risks where the residual risk category is red.

Theme /Risk/Description	Raw Score	Mitigation	Residual Score
Operating Market Population and Economic decline Projected population decline and potential economic decline and failure to identify factor causing the decline and then develop and action strategies to address that decline.	20	Single outcome agreement targets population and economic recovery. Plans to be developed to action commitments in SOA. Economic Development Action Plan	16

- 3.10 Those risks which were initially assessed as red but where mitigation and management action has reduced the risk score to amber are also important. The table below sets out detail of all of the risks where the raw risk category is red.

Theme - Risk - Description	Raw Score	Mitigation	Residual Score
Topical Welfare Reform Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis	20	Separate project established to manage welfare reform with clear plans, resources and risks identified. Joint working with DWP, CPP and other Agencies to plan response to potential impact. Discussions on-going at	12

		national level re local services support framework	
Finance: Income & Funding: A major reduction in income /funding as result of a reduction in grant funding, reduced collection of council tax or fees and charges	16	Effective framework for longer term financial planning that takes account of longer term funding projections. Monitoring of grant funding formula. Effective management arrangements for billing and collection of council tax and fees and charges	12
Infrastructure: Asset Base: Infrastructure and asset base does not meet current and future requirements. Infrastructure and asset base is not being used or managed efficiently or effectively.	16	Corporate Plan. Capital planning process. Asset Management planning process	12
Operating Market: Demographics: The Council fails to recognise, plan and deliver services in a way that takes account of demographic trends.	16	Monitoring of population trends. Corporate and service planning process. Planning and performance management framework (PPMF). Community Engagement Strategy. Workforce planning.	12
Reputation: Reputation	16	Community Engagement Strategy. Communications Strategy. Action plans to improve customer services.	12
Topical: Health & Social Care Integration	16	Establish a separate project to focus on implementation and identifying and	12

		addressing the issues arising	
Topical: Political Leadership	20	New Administration is in place from late September with 27 out of 36 members. Revised political management Arrangements agreed at Council on 23 January 2014. Action plan to address issues set out in Audit Scotland statutory report approved by Council on 23 January. Ongoing programme of members seminars in place. External support from COSLA on the Improvement Service has been brought in.	12

Risk Changes And Trends

- 3.11 It is important to draw out for consideration those risks where the residual score has changed during the quarter and these are set out below. (None this Quarter)

Theme	Risk	Description	Previous Residual Score	Revised Residual Score	Explanation Of Change

- 3.12 Appendix 2 contains a number of charts that show the trend in residual risk scoring since the review of SRR/start of the financial year. (No trend data available).

Variation From Risk Appetite

- 3.13 The residual risk scores when the SRR was reviewed have been adopted as the risk appetite for each risk in the SRR. The table below sets out the risks which are currently assessed as being above or below the risk appetite. If a risk is assessed as being above the risk appetite the Council is exposed to more risk than originally planned. If a risk is assessed as being below the risk appetite the Council may be directing too much resource to managing the risk or the risk is reducing. (None this quarter)

Theme	Risk	Description	Risk Appetite	Current Residual Score	Variance From Risk Appetite
Risks Where Current Score Exceeds Risk Appetite					
Risks Where Current Score Is Less Than Risk Appetite					

4. CONCLUSION

4.1 This report sets out the purpose and process associated with strategic risk register quarterly review reports and summarises the current position.

5. IMPLICATIONS

5.1 Policy – None directly but the SRR should be used to assist the Council in setting and reviewing its strategic direction and performance.

5.2 Financial – None directly from this report but effective risk management assists with effective governance and stewardship of council resources

5.3 Personnel – None

5.4 Equal Opportunities – None

5.5 Legal – None.

5.6 Risk – The report sets out the strategic risks facing the Council and changes to these over the last quarter.

5.7 Customer Service – None.

Bruce West
Head of Strategic Finance
10 March 2014

UPDATED STRATEGIC RISK REGISTER – APPENDIX 1

Risk Ref	Description Of Risk	Example Consequences	Gross Risk			Desired Outcome	Control Processes/ Mitigation	Residual Risk			Risk Owner
			Li	Im	Sc			Li	Im	Sc	
Finance – Income and funding	<p>A major reduction in income /funding as result of a reduction in grant funding, reduced collection of council tax or fees and charges</p> <p>This may arise from global or local economic circumstances, government policy on public sector budgets and funding or data that determines grant funding formula.</p>	<p>Lack of income /funding to support Council objectives.</p> <p>Requirement to reduce service provision or budget allocations.</p> <p>Reduced income impacts on performance levels.</p>	4	4	16	The Councils finances are managed effectively.	<p>Effective framework for longer term financial planning that takes account of longer term funding projections.</p> <p>Monitoring of grant funding formula.</p> <p>Effective management arrangements for billing and collection of council tax and fees and charges.</p>	3	4	12	Head of Strategic Finance and Head of Customer and Support Services
Finance - Expenditure	<p>Major unforeseen expenditure creates significant overspend or a need to make significant and unplanned reductions in expenditure or redirection of budgets.</p>	<p>Resources need to be diverted.</p> <p>Reduced levels of performance.</p>	3	4	12	The Councils finances are managed effectively.	<p>Revenue and capital budget preparation including review of base budget, inflation, cost and demand pressures.</p> <p>Revenue and capital budget monitoring.</p>	2	4	8	Head of Strategic Finance

							Maintaining an adequate contingency within General Fund reserve. Adequate insurance coverage.				
Infrastructure – Leadership and management	A lack of Strategic Leadership and Direction will have a negative impact on the ability of the Council to set out strategic objectives and then align service delivery and resources to ensure these objectives are achieved. May also the impact on development of the community planning partnership. Risk that organisation is not focussed on outcomes /objectives resulting in poor decision making	No clear strategic direction/set of objectives. Objectives not achieved as services and resources are not fully aligned to objectives. Opportunities missed to demonstrate community leadership. Confidence in, and reputation of, the Council harmed. Fail to adapt to changing environmental, social and economic conditions.	3	4	12	The Council has a clear strategic direction and service and resources are aligned to ensure Council objectives are achieved.	Corporate Plan sets out overall Council objectives. Community Plan/SOA sets out CPP objectives with clear links to Council contributions (being developed). Corporate Improvement Plan. PPMF and service planning and performance monitoring to ensure service outcomes and activity is in line with Council objectives and performance is meeting targets. Community	3	4	12	Chief Executive

	and inadequate governance arrangements	Fail to meet service needs of citizens.					engagement and consultation to understand activity local needs. Development of a corporate plan				
Infrastructure - Management of services and resources	<p>Services and resources are not effectively managed.</p> <p>Services fail to achieve agreed performance levels and as a result are not contributing fully to Council objectives</p> <p>Resources are poorly managed with result that agreed outcomes and objectives are not fully achieved.</p> <p>Unable to achieve continuous improvement and improve effectiveness and efficiency.</p>	<p>Poor performance.</p> <p>Increased costs.</p> <p>Negative publicity.</p> <p>Unable to demonstrate best value.</p>	3	3	9	<p>Performance targets achieved.</p> <p>Performance improves over time and compared to others.</p> <p>Improved use and management of resources.</p>	<p>Regular performance monitoring and review.</p> <p>Performance scorecards and Pyramid.</p> <p>PPMF and service planning.</p> <p>Corporate Improvement Plan and monitoring of progress.</p> <p>Argyll and Bute Manager Programme.</p>	2	3	6	<p>Executive Directors</p> <p>Heads of Service</p>

<p>Infrastructure - Condition and suitability of overall infrastructure and asset base.</p>	<p>Infrastructure and asset base does not meet current and future requirements.</p> <p>Infrastructure and asset base is not being used or managed efficiently or effectively.</p>	<p>Infrastructure and asset base do not support overall Council objectives.</p> <p>Infrastructure and asset base do not support delivery of service outcomes.</p> <p>Infrastructure and asset base is allowed to deteriorate resulting in cost, lost opportunities and wasted resource.</p>	4	4	16	<p>The Council has an infrastructure and asset base that is maintained, safe, efficient and fit for purpose and which supports development of the area and achievement of objectives.</p>	<p>Corporate Plan.</p> <p>Capital planning process.</p> <p>Asset Management planning process.</p>	3	4	12	<p>Executive Director of Development and Infrastructure</p> <p>Head of Facility Services.</p>
<p>Infrastructure - Civil Contingencies and Business Continuity</p>	<p>The arrangements in place for civil contingencies and business continuity are not effective.</p>	<p>Ineffective management of major emergencies affecting Council services and communities in Argyll and Bute in response to a major emergency.</p> <p>Incident and recovery phase of an emergency lead to greater inconvenience and hardship and a longer timescale for return to normal.</p>	3	4	12	<p>Effective plans and procedures in place to respond to a major event affecting Council services and/or the general public.</p>	<p>On-going training programme in place and continual update of Emergency Plans and procedures.</p> <p>Recent review of business continuity arrangements in 2012. All critical activities identified.</p>	2	4	8	<p>Head of Improvement and HR</p> <p>Head of Governance and Law</p>

		Council unable to effectively deliver its own services as a result of an emergency.									
Operating - Demographic Change	The Council fails to recognise, plan and deliver services in a way that takes account of demographic trends.	Mismatch of resources and service requirements. Services not configured to meet user/citizen requirements.	4	4	16	Performance of key priority services and other key areas identified by the public maintained or improved	Monitoring of population trends. Corporate and service planning process. Planning and performance management framework (PPMF). Community Engagement Strategy. Workforce planning.	3	4	12	Head of Improvement and HR
Operating Market - Population and economic decline	Projected population decline and potential economic decline and failure to identify factor causing the decline and then develop and action strategies to address that decline.	Economic decline results in a circle of decline with reduced employment, lower earnings, failing businesses and poor perception of the area. Population decline reduces funding	5	4	20	Sustainable economic growth and population growth in Argyll and Bute.	Single outcome agreement targets population and economic recovery. Plans will need to be developed to action commitments in SOA. Economic Development	4	4	16	Head of Economic Development

		and reduces scope for efficiencies and economies of scale in service delivery. Combined population and economic decline may increase need and costs for some services.					Action Plan.				
Operating Environment - Partnership Governance	Inadequate Partnership Governance Arrangements. Risk that partnership arrangements are poorly defined and constituted leading to an inability to deliver outcomes and objectives or being democratically deficient	Lack of Accountability. Lack of democratic input to key decisions. Partnership viewed as having failed and not achieving objectives. Wasted resources and effort. Reputational damage.	4	3	12	SOA outcomes achieved.	SOA (currently being drafted). Clear line of sight from SOA to individual partner contributions (being developed). CPP governance arrangements and partnership agreement.	3	3	9	Head of Improvement and HR Head of Governance and Law
Reputation	Poor image and reputation including negative external scrutiny. The Council fails to maintain its general reputation with residents, the Community and the	Reputation declines. Negative impact on morale. Poor reputation undermines action being taken to target population	4	4	16	The reputation of the Council is protected and enhanced.	Community Engagement Strategy. Communications Strategy. Action plans to improve customer services.	3	4	12	Head of Improvement and HR

	wider Local Government Community. Poor performance and poor audit and inspection results.	and economic growth. Increased risk of audit and inspection activity.					Planning and performance management framework to ensure services properly planned and managed and performance targets achieved.				
Engagement - Alignment of service delivery.	The Council fails to understand community needs and align service delivery to meet these.	Gaps between community needs and Council services. Also impacts on reputation.	3	4	12	The Council understands local needs and aligns service deliver accordingly.	Community Engagement Strategy. Operation & development of: Panels & Forums - Young Peoples Panel - Youth Website - Citizens Panel etc	2	4	8	Head of Improvement and HR
Topical – Welfare Reform	Implementation of welfare reform is not managed well resulting in increased poverty and deprivation or short term crisis.	Increase in demand or costs for Council services. Financial crisis and hardship for individuals. Adverse impact on local economic development. Adverse impact on communities. Potential widening of inequalities gap.	5	4	20	Well managed implementation of welfare reform in a way that minimises impact on individuals and communities but does not create a financial burden for the Council.	Separate project established to manage welfare reform with clear plans, resources and risks identified. Joint working with DWP, CPP and other Agencies to plan response to potential impact. Discussions on-going at national level re local services support framework.	3	4	12	Head of Customer and Support Services

Topical – Health and Social Care integration	Implementation of health and social care integration is not managed effectively.	Unable to proceed with health and social care integration on a managed basis and/or in accordance with timescales. Integration has a negative impact on health and social care service delivery.	4	4	16	Planned and managed implementation of health and social care.	Establish a separate project to focus on implementation and identifying and addressing the issues arising.	3	4	12	Executive Director – Community Services
Topical – Political Leadership	Political instability means there is a lack of collective strategic leadership by councillors. Current political management arrangements are contributing to the problem. Whilst not affecting front line services these issues are beginning to affect strategic planning.	Loss of Strategic direction. Deterioration in performance. Negative impact on reputation.	4	5	20	Improved Strategic focus. Performance level maintained. Support political leadership.	New Administration in place from late September with 27 out of 36 members. Revised political management Arrangements agreed at Council on 23 January 2014. Action plan to address issues set out in Audit Scotland statutory report approved by Council on 23 January. Ongoing programme of members seminars in place. External support from COSLA on the	3	4	12	Chief Executive

							Improvement Service has been brought in.				
--	--	--	--	--	--	--	--	--	--	--	--

Li = Likelihood
Im = Impact
Sc = Score

Risk Assessment Matrix – Appendix 2			
Likelihood		Impact	
Score	Description	Score	Description
1	Remote – Very unlikely to ever happen.	1	None – minimal impact on objectives, budget, people and time
2	Unlikely – Not expected but possible.	2	Minor – 1%/10% budget, first aid, minor impact objectives, 1wk/3 months delay.
3	Moderate – May happen occasionally.	3	Moderate – 10%/30% budget, medical treatment required, objectives partially achievable, 3/12 months delay.
4	Likely – Will probably occur at some time.	4	Major – 30%/70% budget, permanent harm, significant impact on service delivery, 1/2 years delay.
5	Almost certain – Will undoubtedly happen and possibly frequently	5	Catastrophic – Over 70% budget, death, unable to fulfil obligations, over 2 years delay.

A combined score of 15 or more is classed as a red risk.

A combined score of between 6 and 14 is classed as an amber risk.

A combined score of less than 5 or less is classed as a green risk.

ANNUAL AUDIT PLAN 2014/15 - DRAFT

1. SUMMARY

1.1 This report introduces the draft Annual Audit Plan for 2014/15.

2. RECOMMENDATIONS

2.1 To consider the draft Annual Audit Plan and provide any comments.

2.2 To note that it is proposed to use the draft Annual Audit Plan as a working draft with further comments sought from management and the Audit Committee before the report is finalised in June.

2.3 To note the proposed performance measures and that comments will be sought from management and the Audit Committee with a further report brought to the Audit Committee in June.

3. DETAILS

3.1 The draft Annual Audit Plan in Appendix 1, presents the internal audit risk assessment and draft annual audit plan for Argyll & Bute Council for the 2014-15 financial year.

3.2 The audits detailed in the audit plan have been selected following an exercise to update the audit universe to identify all of the auditable areas within the Council and assess the associated risks.

3.3 Factors used in the risk assessment process included the potential impact on the Council's corporate outcomes, the financial materiality, links to strategic risks, key changes within the operating environment and assurance received from other sources.

3.4 The frequency of audit review was determined by incorporating the requirement to provide an annual assurance statement, value and volume of transactions and impact on the Council's framework for internal control.

3.5 The Annual Audit Plan is presented as a draft. The revised risk assessment process represents a change from previous years. The Audit Committee will also be presented with the draft External Audit Plan at its March meeting. There are also a number of "new" members appointed to the Audit Committee. Finally it is intended to hold a development day for the Audit Committee which will consider the work plan of the Audit Committee. Taking all of these points into account it is proposed to retain the Annual Audit Plan as a draft at this stage to allow further consideration by management and the Audit Committee with a further report coming to the June meeting. Until June the focus for audit activity will be on work and audits related to the Annual Governance Statement or where external audit will rely on the work of internal audit.

- 3.6 Under the Public Sector Internal Audit Standards, the Internal Audit team continues to develop a Quality Assurance and Improvement Programme. We have therefore proposed amendments to the current performance indicators to align with the Scottish Local Authorities Chief Internal Audit Group Balanced Scorecard measures.
- 3.7 The proposed performance measures are draft. They will be developed and we will begin to use them. Input from members of the Audit Committee and also management will assist in developing and reviewing these measures. A further report will be brought to the June meeting of the Audit Committee.

4. CONCLUSION

- 4.1 The Annual Audit plan is aligned with the Council's Long Term Outcomes, Corporate Outcomes and Strategic Risk Register. Revised performance measures are proposed. Both the draft Annual Audit Plan and performance measures will be further consulted on with a further report the June meeting of the Audit Committee.

5. IMPLICATIONS

- | | | |
|-----|----------------------|------|
| 5.1 | Policy: | None |
| 5.2 | Financial: | None |
| 5.3 | Personnel: | None |
| 5.4 | Legal: | None |
| 5.5 | Equal Opportunities: | None |
| 5.6 | Risk | None |
| 5.7 | Customer Service | None |

For further information please contact Internal Audit (01546 604294)

Bruce West
Head of Strategic Finance
10 March 2014



INTERNAL AUDIT

DRAFT

ANNUAL AUDIT PLAN

2014-15

March 2014

Contents

1.	INTRODUCTION	1
2.	DEFINING OUR AUDIT UNIVERSE	3
3.	INTERNAL AUDIT PLAN 2014-15	5
4.	MONITORING PERFORMANCE	10
	APPENDIX 1: THE COUNCIL'S STRATEGIC PRIORITIES AND RISKS	12
	APPENDIX 2: ARGYLL & BUTE COUNCIL AUDIT UNIVERSE	15
	APPENDIX 3: AUDIT DAYS AVAILABILITY	16

1. INTRODUCTION

BACKGROUND

Under the Public Sector Internal Audit Standards (PSIAS), the Council's internal audit plan must be risk based, and focused on governance, risk and controls to allow the Chief Internal Auditor to provide an annual opinion on the Council's internal control framework, based on the work undertaken during the year. This annual opinion informs the Annual Governance Statement within the Council's annual financial statements.

This report presents the internal audit risk assessment and annual audit plan for Argyll & Bute Council for the 2014-15 financial year.

APPROACH

Our approach to developing the annual plan is based on five stages. The approach is summarised below:

Stage	Our Approach
<p>1. Understand the Council's Risks and Objectives</p>	<p>We have reviewed the Council's key plans, including the Single Outcome Agreement, Corporate Plan, and draft Strategic Risk Register to identify corporate objectives and risks. The key risks and outcomes are summarised in Appendix 1.</p> <p>We have updated the audit universe to identify all of the auditable units within the Council, which are closely aligned with the structure of the Council (Appendix 2). We have also identified a number of cross-cutting, corporate auditable units, as follows:</p> <ul style="list-style-type: none"> - Risk management framework - Performance management arrangements - IT control environment - Arrangements for the prevention and detection of fraud and irregularity <p>Auditable units are key functions of the Council, but may stretch beyond organisational boundaries.</p>
<p>2. Assess risk maturity</p>	<p>As part of the 2013-14 internal audit programme, we completed an audit of the Council's risk management arrangements to inform whether we can place reliance on the corporate risk assessment.</p> <p>During the review, we assessed the Council's risk maturity. We found that arrangements for identifying and managing strategic risks were well-developed, and continue to improve. Our overall assessment of the Council's arrangements means that we can place reliance on management's assessment of risk, and we have therefore drawn upon</p>

the strategic risk register to inform the audit plan.

3. Perform risk based assurance planning

We conducted a high level risk assessment on each of the Council's services to determine the required frequency of audit review. The frequency is linked to our requirement to provide an annual assurance opinion to the Audit Committee, and includes factors such as the value and volume of transactions, and the impact on the Council's framework for internal control.

4. Develop audit and risk assessment

We have developed a methodology to determine where and how key risk factors impact the Council, to determine the inherent risk attached to each auditable unit. Risk factors include the potential impact on the Council's corporate outcomes, the financial materiality, links to strategic risks, and key changes within the operating environment such as legislative change.

We have assessed the strength of the Council's internal control framework for managing risk, including the rating of audit recommendations, and implementation of previous audit recommendations to determine the probability of the risk materialising.

We have also mapped the assurance you receive from other sources, including external audit, other scrutiny bodies and management arrangements during 2013-14, and 2014-15.

5. Draft internal audit plan

Section 3 of this report sets out our draft internal audit plan, which prioritises the key risks facing the Council, and therefore allows for flexibility within the overall audit resource.

We have also considered additional audit requirements, including the Annual Governance Statement, Scottish Government grant requirements, and unplanned audit reviews and investigations.

NEXT STEPS

This draft is presented as a basis for discussion and development. We welcome comment on the options identified for review from the Audit Committee. We will also consult with the Senior Management Team and External Audit on our risk assessment and plans for review. A revised audit plan will be brought to the June meeting of the Audit Committee. In the meantime audits and core work around the annual governance statement and where the external audit plan is to place reliance on the work of internal audit will be progressed.

2. DEFINING OUR AUDIT UNIVERSE

As part of our risk assessment methodology, we have considered each of the high level auditable units against our requirements to deliver our annual audit opinion. There are three key elements relating to our annual audit opinion:

Opinion requirement	Risk Factors
Financial Controls	Value of transactions Volume of transactions Impact on other services
Corporate Governance arrangements	Corporate policies and procedures Internal control environment Reliance on ICT controls
Strategic Risks	Identified by management as an area of significant risk Significant changes to the operating environment

We have used this assessment, summarised in Table 2.1, to determine the audit frequency across each area of the Council.

Table 2.1: High level audit needs assessment

Auditable Units	Financial	Governance	Risk	Risk Indicator	Review Frequency
Strategic Finance					
SF Corporate Support	1	1	1	Significant	Annual
SF Departmental Support	1	1		Significant	Annual
Treasury Management	1			Moderate	2 years
Community Services					
Learning Disability Services	1			Moderate	2 years
Older Peoples' Services	1		1	Significant	Annual
Mental Health Services	1			Minor	3 years
Children and Families	1	1	1	Significant	Annual
Criminal Justice	1		1	Moderate	2 years
Early years	1			Minor	3 years
Primary School Education	1		1	Moderate	2 years
Secondary School Education	1		1	Moderate	2 years
Quality Improvement Team			1	Minor	3 years
School Support Team			1	Minor	3 years

Auditable Units	Financial	Governance	Risk	Risk Indicator	Review Frequency
Adult Learning and Community Development			1	Minor	3 years
Leisure and youth services	1			Moderate	2 years
Culture and Libraries			1	Minor	3 years
Housing Services			1	Moderate	2 years
Customer Services					
Improvement and OD		1	1	Significant	Annual
Human Resources and Payroll	1	1	1	Significant	Annual
Communications			1	Moderate	2 years
Health and Safety		1	1	Moderate	2 years
Area Governance		1		Moderate	2 years
Central Governance		1		Moderate	2 years
Legal – commercial and contract		1	1	Moderate	2 Years
Legal – corporate			1	Minor	3 years
Customer Service Centre		1	1	Moderate	2 years
Procurement, commissioning and creditors	1	1		Significant	Annual
Revenues and benefits	1		1	Significant	Annual
ICT	1	1	1	Significant	Annual
Property Services	1	1		Moderate	2 years
Catering and cleaning		1		Minor	3 years
Integrated transport	1		1	Moderate	2 years
Development and Infrastructure					
Fleet, waste and infrastructure	1		1	Minor	3 years
Amenity Services	1			Minor	3 years
Roads management and maintenance	1		1	Moderate	2 years
Infrastructure design			1	Minor	3 years
Strategic transportation			1	Moderate	2 years
Marine and airports			1	Minor	3 years
Economic development		1	1	Significant	Annual
Projects, renewables and regeneration		1	1	Moderate	2 years
CHORD	1	1	1	Moderate	2 years
Planning			1	Minor	3 years
Development policy			1	Minor	3 years
Building Standards		1	1	Minor	3 years
Regulatory Services			1	Minor	3 years

3. INTERNAL AUDIT PLAN 2014-15

We have conducted a risk assessment using the estimated impact and likelihood of a failure in internal control for each auditable unit within the audit universe.

Table 3.1 sets out the internal audit work planned for 1 April 2014 to 31 March 2015. The plan is cross-referenced to the Council's Long Term Outcomes, Corporate Outcomes and Strategic Risk Register (SRR), as summarised in Appendix 1.

Auditable Unit		Planned Days	Outcome/ Risk Ref (App 1)	Outline Scope
All services	All departments			
Cross cutting	Fraud and irregularity	30	SRR10	Arrangements for the prevention and detection of fraud, including Serious Organised Crime.
Cross cutting	Information Security	20	SRR10	Data and Information Security - Governance and Practice
Cross cutting	Pyramid performance management system	18	C04.1	Remaining days carried forward from 2013-14, scope includes the completeness, timeliness and accuracy of performance information
Cross cutting	Cash Spot Checks	10		Unannounced spot check of two establishments per year
		78		
Service	Strategic Finance			
SF Corporate Support	Risk management	15		Annual review of the Council's risk management arrangements
SF Corporate Support	General Ledger	15		Review of general ledger controls within updated Oracle system carried forward from 2013-14
SF Corporate Support	Income Maximisation	25	C01.4	Direct Payments including verification and financial monitoring arrangements
SF Departmental Support	Capital Contracts and Operating Leases	30	SRR2	Review of capital accounting arrangements carried forward from 2013-14 plan

Auditable Unit		Planned Days	Outcome/ Risk Ref (App 1)	Outline Scope
SF Departmental Support	Budgeting	15	CO4.2, SRR1-2	A review of the effectiveness of management information
		100		
Service	Community Services			
Adult Care	Older Peoples' Services: the Integration of Health and Social Care	25	LO5, CO1.6, SRR12	To include the roles, responsibilities and arrangements for the management and resourcing of joint services.
Adult Care	Older Peoples' Services: Mobile Emergency Care	15	LO6, SRR7	To include responsibilities and procedures, financial controls, and the reporting of outcomes and performance.
Children and Families	Children and Families: Fostering and Adoption	25	LO4, CO1.1	To review the implementation of national standards, governance, monitoring and quality assurance arrangements.
Community and Culture	Adult Learning and Community Development	25	LO3, CO1.3	Adult Learning policy development and implementation including regeneration, anti-social behaviour, substance misuse etc.
Education	Primary School Education	12		Primary and Nursery school visits (2 per year) to cover key controls including finance, security and administration.
Education	Secondary School	12		Secondary school visits (2 per year), as above.
Education	School Support	20	LO3, CO2.1, SRR5	Arrangements for arranging, managing and paying for NDPO school planned and unplanned maintenance work.
		134		
Service	Customer Services			
Customer and Support Services	Key Financial Controls including Debtors, and Creditors	20		A continuous audit programme will be developed and findings reported to each Audit Committee
Customer and Support Services	Revenue and Benefits	25	CO1.6, SRR12	To cover Housing and Council Tax benefits (incl. CT Reduction).

Auditable Unit		Planned Days	Outcome/ Risk Ref (App 1)	Outline Scope
Customer and Support Services	Insurance arrangements	15	SRR6	Arrangements for insurance, including self-insurance
Customer and Support Services	ICT	25	SRR 5	Draws on work commenced on the ICT Strategy in 2012-13 and will include the PSN Code of Connection
Customer and Support Services	Procurement, commissioning and creditors	12		Utility procurement and monitoring
Customer and Support Services	Customer Service Centre	15	SRR10	Administration arrangements and personnel and data.
Facility Services	Asset and Estates Management	25	SRR4	Land and Asset Disposal, including administrative arrangements and links to council/community planning asset management planning.
Governance and Law	Central Governance	15		Records Management, to include compliance with the Public Records (Scotland) Act 2011.
Human Resources and Payroll	Payroll and overtime claims	20		Continuous audit techniques will be used to highlight and investigate significant variances
Human Resources and Payroll	Sickness absence	25	LO5 CO4.2	Review of policies, roles and responsibilities, and timely management information.
Improvement and OD	SPIs and SOLACE benchmarking	20	CO4.1	Annual audit of performance indicator information submitted to Audit Scotland
Improvement and OD	Web team	25	CO4.3 SRR10	Intranet and Internet Development, including design and content management
Communication	Public relations, media and marketing	20	CO2.2 SRR10	To review community engagement arrangements, information provided to the public and links to Corporate and Community Plans.
		262		

Auditable Unit		Planned Days	Outcome/ Risk Ref (App 1)	Outline Scope
Service	Development and Infrastructure			
Economic Development	Business Support	30	LO1, CO3.1, SRR8	To review the strategic support to the development and growth of business and tourism in Argyll & Bute.
Economic Development	Employment and training	18	LO3, CO4.2, SRR7	To review key training (including European funded) and work placement programmes to support economic development, including the Council's "grow your own" approach for key professions.
Roads and Amenity Services	Roads management and maintenance	20	CO2.1, SRR5	Flood and landslip control and prevention, include action plan development and monitoring and arrangements for planning and undertaking work.
Roads and Amenity Services	Parking	15		Carried forward from 2012-13 programme
Roads and Amenity Services	Roads management and maintenance	20	CO3.3, SRR5	Winter maintenance and emergency response, including the prioritisation of maintenance, progress, budget monitoring and customer satisfaction.
		103		

Annual Assurance Work			
Internal Audit	40		Annual Governance Statement Local Code of Corporate Governance Grant Claims & External Audit Liaison
Economy	20		LEADER Programme FLAG grants
		60	

Planning & Reporting			
Internal Audit	80	-	Annual Risk Assessment & Audit Plan Development of continuous audit programme Internal Audit Annual Report Irregularity Reporting Reports to Senior Management Team Progress Reports to Audit Committee
	80		
Contingency			
Internal Audit	80	-	Contingency days for investigations, ad hoc requests from Services, Audit Committee requests, or to provide additional support to external audit.
	80		
Total Productive Plan Days (App 3)	877		

4. MONITORING PERFORMANCE

Under the Public Sector Internal Audit Standards, the Internal Audit team continues to develop a Quality Assurance and Improvement Programme.

Progress reports to each Audit Committee will include:

- Progress on Internal Audit Activity's performance relative to this plan, including the number of direct audit days
- A summary of key recommendations arising, including any instances of fraud, significant risk exposures or control issues
- The results of our follow up work on the status of audit recommendations

We have also proposed amendments to the current performance indicators (Table 4.1, below). The revised performance indicators are aligned to the Scottish Local Authorities Chief Internal Audit Group (SLACIAG) Balanced Scorecard measures.

We would welcome views from management and the Committee on the proposed measures, to allow us to monitor and report on our performance in 2014-15 Quarter 1. The performance measures set out below are proposals and it is intended to seek views from management and members of the Audit Committee before bringing these back to the June meeting of the Audit Committee.

Objective	Proposed measure	Proposed target
Align our work to key corporate risks and priorities	Percentage of risks within the Strategic Risk Register audited in reporting period	30%
Maintain an understanding of key stakeholder needs	Quarterly meetings held with Chair of the Audit Committee and Chief Executive/Section 95 Officer	100%
Maintain strong relationships with Departments, and continue to improve the impact of our work	Percentage high satisfaction rates from post-audit surveys (score 4 or 5 in a 5 point ranking system)	80%
Continue to adopt an effective follow up process	Percentage of audit recommendations followed up within reporting period	100% follow up on outstanding points on a quarterly basis
Maintain the highest quality and content in our internal audit reports which effectively communicate key messages and report on the right things	Percentage customer satisfaction with audit reports	80%

Objective	Proposed measure	Proposed target
To have high quality staff complement	Percentage qualified staff	All staff to have minimum professional qualifications with recognised bodies
	Training hours per year per auditor	Review training needs based on personal development plan and/or continuing professional development (CPD) requirements

DRAFT

APPENDIX 1: THE COUNCIL'S STRATEGIC PRIORITIES AND RISKS

As part of our development of the risk assessment, we reviewed the Council's vision and key strategic priorities, and the risks that have been identified in achieving these aims. The following key documents are reflected below:

- § Argyll & Bute Community Planning Partnership's Single Outcome Agreement
- § The Council's Corporate Plan 2013-17
- § The Council's Improvement Plan
- § The Draft Strategic Risk Register

Single Outcome Agreement

"Argyll & Bute's economic success is built on a growing population"

Long term outcomes	
LO1	§ The economy is diverse and thriving.
LO2	§ We have infrastructure that supports sustainable growth.
LO3	§ Education, skills and training maximises opportunities for all.
LO4	§ Children and young people have the best possible start.
LO5	§ People live active, healthier and independent lives.
LO6	§ People live in safer and stronger communities.

Corporate Plan

Corporate Objective 1- Working together to realise the potential of our people

Corporate outcomes	
CO1.1	§ Our children are nurtured so that they can achieve their potential.
CO1.2	§ Our young people have the skills, attitudes and achievements to succeed throughout their lives.
CO1.3	§ We have a skilled and competitive workforce.
CO1.4	§ Our people are supported to live more active, healthier and independent lives.
CO1.5	§ We work with our partners to tackle discrimination.
CO1.6	§ Vulnerable adults, children and families are protected and supported within their communities.

Corporate Objective 2- Working together to realise the potential of our communities

Corporate outcomes	
CO2.1	§ The places where we live, work and visit are well planned, safer and successful.
CO2.2	§ We create opportunities for our partners and communities to fully engage in the way our services are delivered.
CO2.3	§ The impact of alcohol and drug misuse on our communities, and on the mental health of individuals, is reduced.

Corporate Objective 3- Working together to realise the potential of our area

Corporate outcomes	
CO3.1	§ We create the right conditions where existing and new businesses can succeed.
CO3.2	§ Argyll & Bute has more new businesses operating in the area, creating more jobs.
CO3.3	§ Our transport infrastructure meets the economic and social needs of our communities.
CO3.4	§ We contribute to a sustainable environment.
CO3.5	§ We make the best use of our built and natural environment.

Corporate Objective 4 - Working together to realise the potential of our organisation

Corporate outcomes	
CO4.1	§ Our services are continually improving.
CO4.2	§ Our employees have the skills and attitudes to deliver efficient and effective services.
CO4.3	§ We provide good customer service.

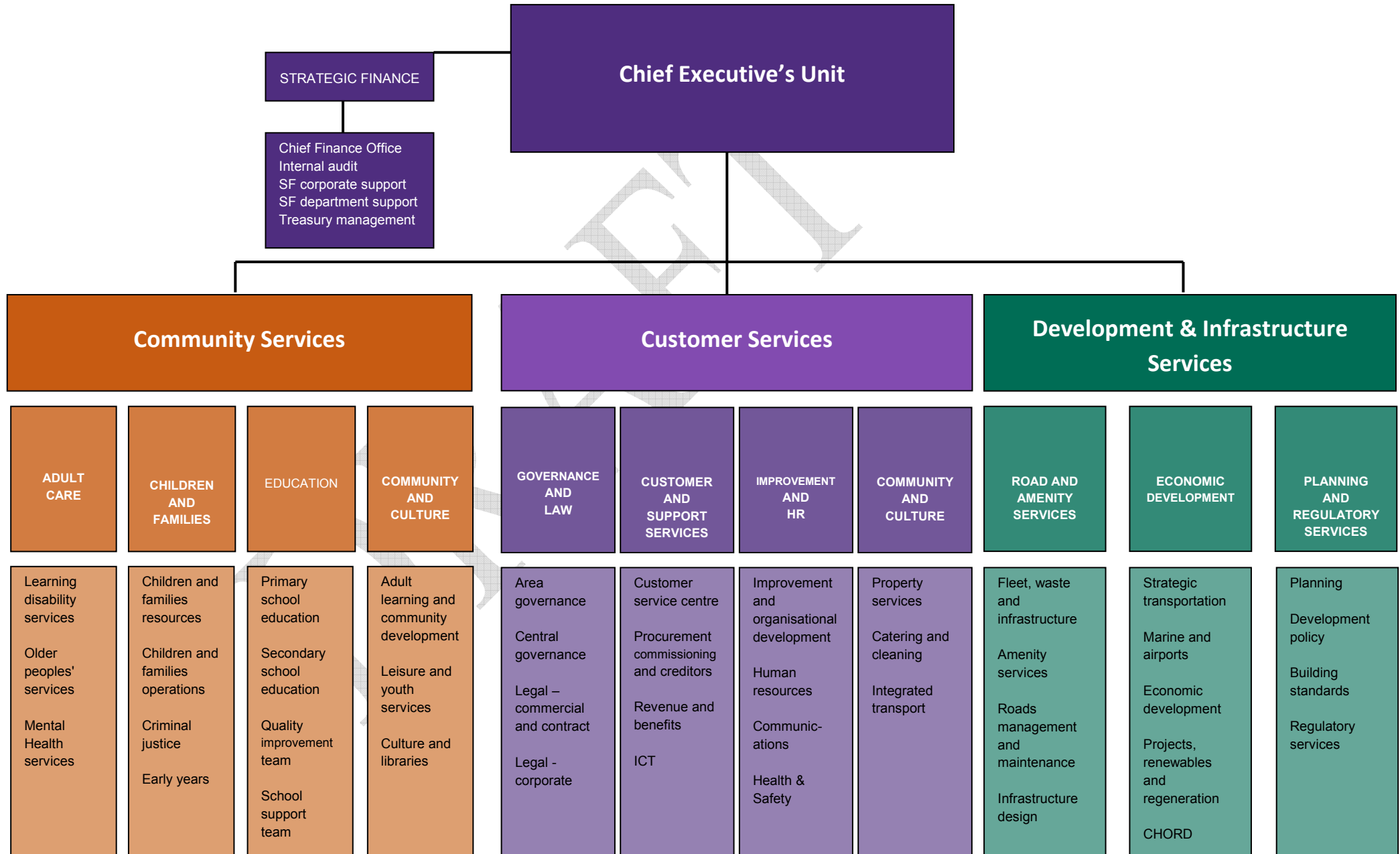
Strategic Risk Register

Strategic Risks	
SRR1	§ Finance – income and funding
SRR2	§ Finance – major unforeseen expenditure
SRR3	§ Infrastructure – leadership and management
SRR4	§ Infrastructure – management of services and resources
SRR5	§ Infrastructure – condition and suitability of overall infrastructure and asset base
SRR6	§ Infrastructure – civil contingencies and business continuity
SRR7	§ Operating – demographic change

Strategic Risks	
SRR8	§ Operating market – population and economic decline
SRR9	§ Operating environment – Partnership governance
SRR10	§ Reputation
SRR11	§ Engagement – alignment of service delivery
SRR12	§ Topical

DRAFT

APPENDIX 2: ARGYLL & BUTE COUNCIL AUDIT UNIVERSE



APPENDIX 3: AUDIT DAYS AVAILABILITY

Our Plan is based on the following estimated audit days calculation:

		Chief Internal Auditor	Senior Audit Assistant	Senior Audit Assistant	Accountant	Accountant
Working days available		260	260	260	260	260
Less:	Public Holidays	8	8	8	8	8
	Annual Leave	32	32	32	32	32
	Sickness Provision	5	5	5	5	5
	Days available	215	215	215	215	215
Non-audit days						
	CPD/SLACIAG	15	10	10	10	10
	IIA	0	25	25	0	0
	Team/catch up meetings	20	10	10	10	10
	Audit Committee Support	10	10	10		
	Total direct audit days	170	160	160	195	195
						880

Any changes in planned resource will be reported to the Audit Committee, along with our proposed response.

Argyll and Bute Council

Annual Audit Plan 2013/14



Prepared for Members of Argyll and Bute Council
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Summary	4
Introduction	4
Summary of planned audit activity	5
Responsibilities	6
Responsibility of the appointed auditor	6
Responsibility of the Head of Strategic Finance	6
Format of the accounts	6
Audit Approach	7
Our approach	7
Materiality	8
Reporting arrangements	8
Quality control	10
Independence and objectivity	10
Audit issues and risks	11
Audit issues and risks	11
Summary assurance plan	12
National performance audit studies - impact and follow up	13
Fees and resources	14
Audit fee	14
Audit team	15
Appendix A - Financial statements audit timetable	16
Appendix B - Summary assurance plan	17
Appendix C - Audit team	21

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in Argyll and Bute Council's financial statements. This report summarises our assessment of the key challenges and risks facing Argyll and Bute Council and sets out the audit work that we propose to undertake in 2013/14. Our plan reflects:
 - the risks and priorities facing Argyll and Bute Council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
2. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee. Argyll and Bute Council has 22 trusts having charitable status with total assets of £2.444 million. The Assistant Auditor General wrote to local government directors of finance in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charitable trusts. Accordingly, we will perform the audit of the council's charitable trusts in parallel with the audit of the council's financial statements and provide audit opinions as necessary.

Summary of planned audit activity

3. Our planned work in 2013/14 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of Argyll and Bute Council as at 31 March 2014 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2013 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
 - reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2014/15 to 2016/17 for the council
 - a review and assessment of Argyll and Bute Council's governance and performance arrangements in a number of key areas including: selected systems of internal control, adequacy of internal audit, ICT follow up, targeted follow up of national studies and statutory performance indicators
 - provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
 - review of National Fraud Initiative arrangements
 - review of local impact of national studies
 - responding to third party correspondence relating to the council's activities, received by Audit Scotland.

Responsibilities

4. The audit of the financial statements does not relieve management or the Audit Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Head of Strategic Finance

7. It is the responsibility of the Head of Strategic Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of Argyll and Bute Council as at 31 March 2014 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. Argyll and Bute Council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Argyll and Bute Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Argyll and Bute Council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Argyll and Bute Council will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2013/14 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2013/14.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the council. In 2013/14 internal audit has commenced a 3 year partnership contract with Grant Thornton and CIPFA to provide the Council with high level support on development of the internal audit function. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

12. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
- Non Domestic Rates
 - Council Tax
 - Payroll
 - Trade Payables and Purchasing
 - Trade Receivables
 - Cash and Bank
 - Treasury Management
 - Capital Accounting
13. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
- Budget preparation and control
 - Performance management arrangements
 - SPI verification work

Materiality

14. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
15. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement and experience and internal guidance. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

16. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the council and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements, planned audit committee dates. A more detailed timetable will be agreed with the Head of Strategic Finance in due course.

17. 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 responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Head of Strategic Finance, relevant senior manager, internal audit and Audit Scotland's Performance Audit and Best Value Group.
18. We will provide an independent auditor's report to Argyll and Bute Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).
19. Planned outputs for 2013/14 are summarised at Exhibit 1.

Exhibit 1: Planned outputs

Planned outputs	Final report issued by
Governance	
Review of adequacy of internal audit	31 March 2014
Assurance and Improvement Plan Update	19 May 2014
Internal controls management letter	30 June 2014
Performance	
Targeted follow up of performance audit: ALEOs	31 May 2014
Targeted follow up of performance audit: Major capital investment in Councils	30 June 2014
Financial statements	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	30 September 2014
Independent auditor's report on the financial statements	30 September 2014
Annual report to Members and the Controller of Audit	31 October 2014
Audit opinion on charitable trusts	30 September 2014
Audit opinion on Whole of Government Accounts	3 October 2014
Grants	
Audit opinions on Education Maintenance Allowance, Non Domestic Rates Income return and Housing Benefit Subsidy	As required

Quality control

20. International Standard on Quality Control (UK and Ireland) 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. 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 issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.
21. 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 do, however, welcome feedback at any time and this may be directed to the engagement lead, Fiona Mitchell-Knight.

Independence and objectivity

22. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.
23. 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 Argyll and Bute Council.

Audit issues and risks

Audit issues and risks

24. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. The LAN's assurance and improvement plan update 2014-17 also provides an analysis of wider risks and issues which relate to aspects of the council's performance.
25. **Financial management and sustainability:** In October 2012 the council adopted a medium/longer term approach to managing its budget by reviewing its financial position over a 7 year period. A potential funding gap of £40.635 million over the next seven years was identified, requiring annual incremental savings of £5.805 million. The council identified the required 2013/14 savings and an approach was being developed to identify the further required savings of £34.830 million over the following 6 years.
26. In November 2013, following a change in administration, the council changed its budget approach. At its November 2013 meeting, the council agreed its budget strategy for 2014-15. Taking account of the stability offered by the proposed "flat cash" finance settlement, it agreed to set a savings target for 2014-15 and 2015-16 of 1%. The savings are to be achieved by efficiency savings that do not have policy implications. It was also agreed that the 2 year period (2014-15 and 2015-16) is to be used to prepare for delivering services with the reduced funding expected from 2016 onwards. The financial position of the council will be monitored and reported as part of the annual audit
27. **Equal pay claims:** The Council settled most of the remaining outstanding equal pay claims during 2012-13. The equal pay provision remaining at 31 March 2013 was £0.032 million. However, the potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases. The equal pay provision will be reviewed as part of the audit of the financial statements.
28. **Health and social care integration:** The council's public service reform arrangements have been considered through the shared risk assessment process. Discussions are progressing with NHS Highland on health and social care integration. This has comprised a series of meetings at Chief Executive and Leader level and workshops to review the options available. There are a number of key issues to be agreed including agreement on the preferred model, the scope of integration and the formation of an Integration Board to oversee the formation and delivery of the new partnership agreement. The LAN will continue to monitor developments closely in this area as health and social care integration is due to be implemented from 1 April 2015.
29. **New committee structure:** In June 2013 the council set up a short life working group to review political management arrangements and structures. In January 2014 the Council approved their recommendation to adopt a service committee model with separate committees for Policy and Resources, Community Services and Environment Development

and infrastructure. They also agreed to extend the remit and powers of Area Committees. The effectiveness of these arrangements will be considered a part of the statutory report follow up work noted below.

30. **Statutory report follow up:** Following targeted Best Value audit work in the area of Leadership and Culture: member to member and member to officer relationships, a statutory report was submitted by the Controller of Audit to the Accounts Commission in October 2013 under section 102(1)(b) of the Local Government (Scotland) Act 2003. The Commission's findings on the report said that it was seriously concerned about substantial risks to the council caused by the instability of leadership by elected members since the last council election. Follow up work will be carried out to assess the progress made in addressing the report findings.
31. **Prior year issues:** Our report to those charged with governance on the 2012/13 audit and our annual report on the 2012/13 audit identified a number of findings from our 2012/13 work which require to be addressed during 2013/14. Excluding those matters referred to above, these findings include accounting for landfill sites, heritage assets, accurate updating of the fixed asset register, review of lease agreements and the Public Service Network. Follow up work will be carried out to monitor progress with these issues as part of the audit of the financial statements.
32. **Castle Toward:** In February 2010 the council's agents marketed Castle Toward on the open market. In June 2013, the council were informed that the successful bidder was now of the view that it was no longer possible to proceed with the transaction and development as envisaged by them. The property will be re-marketed through specialist external agents. Progress made by the council in disposing of the property will be monitored in 2013/14.
33. **Charities:** The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Argyll and Bute Council has 22 charitable trusts with total assets of some £2.444 million. As a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. An additional audit fee has been agreed to cover the work involved. The council are taking steps to rationalise the number of charities subject to audit.

Summary assurance plan

34. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified a range of risks for your organisation which require further consideration as part of our 2013/14 audit. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix B. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

National performance audit studies - impact and follow up

35. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits we will follow up a number of studies at a local level. In 2013/14 this will include a targeted review of Arm's-length external organisations (ALEOs): are you getting it right? (June 2011) and Major capital investment in council (March 2013).

Fees and resources

Audit fee

36. In determining the audit fee we have taken account of the risk exposure of Argyll and Bute Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2014.
37. The agreed audit fee for the 2013/14 audit of Argyll and Bute Council is £276,580 as summarised in Exhibit 2. This includes £9,900 in respect of the separate audits required for the council's charitable trusts, referred to in para 2 above. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at Audit Committee meetings
 - responding to third party correspondence relating to the council's activities
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.

Exhibit 2: Audit fee

Description	Audit fee	Audit fee	Audit fee	Audit fee
	2010/11	2011/12	2012/13	2013/14
Total audit fee	£286,500	£266,160	£253,180	£276,580
% cash (reduction)/increase on prior year	(5.2%)	(7.1%)	(4.9%)	9.2%
Cumulative % real reduction, including GDP deflator	(7.4%)	(15.2%)	(21.1%)	(15.5%)

38. The fee increase over 2012/13 relates specifically to follow up work relating to the statutory report, an FOI request relating to the 2012/13 annual audit report, audit work relating to a complaint, and correspondence queries at a level above the norm for councils of this size.
39. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements for the council or charitable trusts 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 outwith our planned audit activity.

Audit team

40. Fiona Mitchell-Knight, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by David Jamieson who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Appendix A - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January to June 2014
Meetings with officers to clarify expectations of detailed working papers and financial system reports	By 31 March 2014 and ongoing thereafter
Planned committee approval of unaudited financial statements	26 June 2014
Submission of unaudited council financial statements with working papers package	30 June 2014
Submission of unaudited charitable trust financial statements with working papers package	30 June 2014
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Head of Strategic Finance	12 September 2014
Agreement of unsigned financial statements for Audit Committee agenda, and issue of report to the Audit Committee on the audit of financial statements (ISA 260)	19 September 2014
Audit Committee date	26 September 2014
Independent auditors report signed	30 September 2014
Latest date for submission of unaudited whole of government accounts to external audit	29 August 2014
Latest date for signing of WGA return	3 October 2014
Annual Audit Report to Members and the Controller of Audit	31 October 2014

Appendix B - Summary assurance plan

In this section we identify a range of financial statements and wider dimension audit risks facing the council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Financial management and sustainability		
<p>The council will continue to face increasing demand and cost pressures for its services in the foreseeable future. It is facing a significant funding gap over the next seven years.</p> <p><i>Risk: The council may be unable to achieve the required savings without compromising service delivery.</i></p>	<p>The council has a good track of financial management.</p> <p>Budget strategy agreed for 2014/15 and 2015/16.</p> <p>Quarterly revenue and capital budget monitoring reports.</p> <p>The council is in the process of developing proposals for a service prioritisation process which is critical to ensuring that the Council's resources are aligned to and support delivery of the SOA.</p>	<p>Budget setting and monitoring arrangements reviewed as part of the annual risk assessment.</p> <p>Comment on the council's financial position included in the Annual Audit Report.</p>
Equal pay claims		
<p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases.</p> <p><i>Risk: There is a risk that the ultimate cost to the council is greater than anticipated.</i></p>	<p>The council set aside a provision of £0.032 million in 2012/13 to deal with equal pay claims. This sum was based on the best evidence available at the time.</p> <p>The position will be subject to review in 2013/14 and the adequacy of the provision assessed accordingly.</p>	<p>Monitor developments throughout the year and review the equal pay provision as part of the 2013/14 financial statements audit.</p>

Risk	Source of assurance	Planned audit action
Health and social care integration		
<p>The council and NHS Highland have yet to agree an appropriate model for taking forward integration.</p> <p><i>Risk: plans to support health and social care integration are not sufficiently developed to support effective implementation of new arrangements by 1 April 2015, impacting health and social care service delivery.</i></p>	<p>Meetings at Chief Executive and Leader level are taking place.</p> <p>Proposals on the model of integration will be considered by the Council in March.</p> <p>An internal project team has been established and it is completing significant baseline and preparatory work.</p>	<p>Review minutes of meetings between the council and the health board.</p> <p>Maintain regular contact with council officers to stay informed of developments.</p>
New committee structure		
<p>In June 2013 the council set up a short life working group to review political management arrangements and structures. In January 2014 the Council approved their recommendation to adopt a service committee model with separate committees for Policy and Resources, Community Services and Environment Development and infrastructure.</p> <p><i>Risk: Until the new committee structure is fully embedded across the council there is a risk that inappropriate decisions may be made.</i></p>	<p>The new committee structure has been established based on the recommendations of the short life working group.</p>	<p>Observance of committee meetings and reviews of committee minutes.</p> <p>Statutory report follow up.</p> <p>Comment on the council's governance arrangements included in the Annual Audit Report.</p>
Statutory report follow up		
<p>A statutory section 102 report was submitted by the Controller of Audit to the</p>	<p>An Improvement Plan, developed in consultation with members was approved in</p>	<p>Statutory report follow up.</p> <p>Comment on the council's governance arrangements</p>

Risk	Source of assurance	Planned audit action
<p>Accounts Commission in October 2013. Follow up work will be carried out to assess the progress made in addressing the report findings.</p> <p><i>Risk: insufficient progress in addressing the findings from the statutory report could hamper the decision making process and result in corporate objectives not being met.</i></p>	<p>January. It focuses on 4 key areas of improvement: Standards, Governance, Structures and Process, Training and Development and Policy development Support.</p>	<p>included in the Annual Audit Report.</p>
Prior year issues		
<p>A number of findings from our 2012/13 work require to be addressed.</p> <p><i>Risk: insufficient progress in addressing prior year issues could impact on our audit of the 2013/14 financial statements.</i></p>	<p>Planned management action, with a responsible officer is in place to resolve the issues identified.</p>	<p>Follow up work to review implementation of agreed actions.</p>
Castle Toward		
<p>In February 2010 the council's agents marketed Castle Toward on the open market. In June 2013, the council were informed that the successful bidder was now of the view that it was no longer possible to proceed with the transaction and development as envisaged by them. The property will be re-marketed.</p> <p><i>Risk: the council may be unable to obtain best value in the disposal of Castle Toward.</i></p>	<p>Progress is being made regarding re-marketing the property through specialist external agents.</p>	<p>Progress made by the council in disposing of the property will be monitored in 2013/14</p>
Charities		
<p>Argyll and Bute Council currently administers 22 Trust</p>	<p>Experienced finance staff involved in the preparation of</p>	<p>Regular meetings with finance staff</p>

Risk	Source of assurance	Planned audit action
<p>Funds having charitable status, where members are the sole trustees of the fund. These funds will require an independent audit certificate for the year ended 31 March 2014.</p> <p><i>Risk: The requirements of the Charities Act are not met in the financial statements.</i></p>	<p>registered charities' accounts</p>	

Appendix C - Audit team

A summarised curriculum vitae for each core team member is set out below:

Fiona Mitchell-Knight BA (Hons) FCA

Assistant Director of Audit Services (certifying auditor)

Fiona took up post as Assistant Director of Audit in August 2007, following 6 years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 20 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sector.

David Jamieson CPFA

Senior Audit Manager

David has over twenty years experience of both internal and external audit from a wide range of public sector clients including the NHS, local and central government.

Russell Smith BAcc CA

Senior Auditor

Russell has thirteen years experience of public sector audit with Audit Scotland, covering local and central government. Russell previously worked in external audit in the private sector and in the international audit department of a multi national company.

Brian Gillespie DPA (CIPFA)

Auditor

Brian joined Audit Scotland in 2002 and has a wide range of external audit experience in the health, specifically the audit of NHS Greater Glasgow and Clyde, and local government sectors. Prior to this, Brian spent eight years as an internal auditor in the NHS.

Neil W Robb

Senior Auditor (ICT)

Neil has over twenty years experience of public sector audit with Audit Scotland, covering local government, health and the central government sectors. Prior to this, Neil spent nineteen years in various IT management, security and operational roles in financial services.

Fiona Ivison BA (Hons)

Professional Trainee

Fiona is an accountancy graduate from Glasgow Caledonian University with a first class honours degree. She joined Audit Scotland in 2013 and will begin studying for her ICAS qualification during 2014.

This page is intentionally left blank