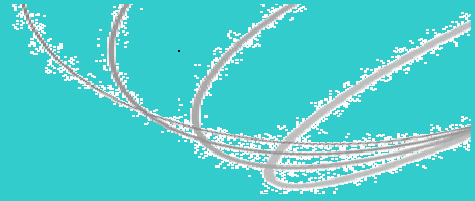


APPENDIX 1



Argyll and Bute Council

Financial Statements Strategy 2005/06

March 2006



APPENDIX 1

Audit Scotland, on behalf of the Auditor General for Scotland, is responsible for:

- providing independent reports to the Auditor General and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements

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Introduction

1.1 The purpose of this plan is to provide Argyll and Bute Council with a clear understanding of our approach to the audit of the financial statements for the year ending 31st March 2006.

Format of the accounts

2.1 The financial statements should be prepared in accordance with the 'Code of Practice on Local Authority Accounting in the United Kingdom' (ACOP), which is issued by the CIPFA/LASAAC Joint Committee.

2.2 ACOP is reviewed and updated annually and the 2005 ACOP, with application to 2005/06, was issued in June 2005.

Responsibility for the preparation of accounts

3.1 It is the responsibility of Argyll and Bute Council and the Head of Strategic Finance, as proper officer, to prepare the financial statements in accordance with ACOP. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records and observing proper accounting practices;
- preparing financial statements timeously which present fairly the financial position of the council at 31 March 2006 and its income and expenditure for the year then ended; and
- preparing an explanatory foreword.

3.2 The main contact for audit staff in the course of the financial statements audit was identified as the Corporate Finance Manager, within Strategic Finance, who has overall responsibility in the detailed preparations and co-ordination of the financial statements.

Scope of the audit

4.1 Our responsibilities, as independent auditors, derive from the Local Government (Scotland) Act 1973 and are summarised in Audit Scotland's *Code of Audit Practice* approved by the Accounts Commission for Scotland, and guided by the auditing profession's ethical guidance. We are required to audit the financial statements in accordance with International Standards on Auditing and to give an opinion:

- whether the financial statements present fairly the financial position of the council as at 31 March 2006 and its income and expenditure for the year then ended;
- as to whether the council has kept proper accounting records, or if we have not received all the information and explanations we require for our audit; and
- whether the statement on the system of internal financial control complies with ACOP and report if the statement does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit.

4.2 We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the council's corporate governance procedures or its risk and control procedures.

4.3 In addition we must consider the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Audit approach

5.1 Our audit approach is based on an annual integrated assessment of risk across our *Code of Audit Practice* responsibilities in relation to governance, performance and opinion (on financial statements). This approach includes:

- understanding the business of the council and the risk exposure which could impact on the financial statements;
- assessing the key systems of internal control, and considering how risk exposure in these systems could effect the financial statements;

- identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing audit objectives for these;
- assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk and control environment risk as part of our integrated risk assessment approach; and
- determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement (see 5.4-5.5 below).

5.2 Through this approach we have also considered and documented the sources of assurance which will allow us to make best use of our resources and focus 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, internal audit coverage and reliance on systems of internal control. Management action being relied on for 2005/06 includes:

- comprehensive closedown procedures and timetable being issued to relevant staff;
- clear responsibilities for provision of accounts and working papers being agreed;
- the impact of the extended ACOP requirement for group accounts being considered;
- delivery of unaudited accounts to agreed timescales with appropriate working papers package;
- completion of the internal audit programme for 2005/06; and
- timely receipt of the letter of representation (ISA 580).

5.3 We have reviewed the internal audit structure and function in accordance with International Standards on Auditing 610 (Considering the work of Internal Audit) and identified areas of their work on which we intend to rely for a number of aspects of our programme of work during 2005/06. Specific to the audit of the financial statements and our Code responsibilities in this regard we hope to place formal reliance on the following internal audit work:

- Payroll
- Council tax and NDR
- Capital accounting
- Capital contracts
- Cash income and banking
- Payments to voluntary bodies
- Unified benefits
- Contract hire and operating leases
- Creditor payments and purchasing
- Debtor accounts
- Housing rents
- General ledger operations
- Government and European grants
- Treasury management
- Tendering procedures

5.4 The audit of the financial statements is completed over three stages; the first stage was carried out between January and February 2006 as part our '*Understanding the Business*' review which fed into the integrated risk assessment approach. Between March and May 2006 we will complete a programme of interim visits, which includes testing the higher level controls we are relying on (in conjunction with our wider governance review); and carrying out early analytical and substantive procedures on account information which is available before the submission of the unaudited financial statement.

- 5.5 We will evaluate the results of any early work conducted prior to the submission of the unaudited financial statements and consider the impact on the final audit programme. The early work on the financial statements allows us to focus the final stages of the audit, during June – August 2006, on the key risks and audit objectives for disclosure and significant areas of judgement.
- 5.6 At the completion of the financial statements (opinion) audit we will provide the Head of Strategic Finance with a management letter containing observations and recommendations on significant matters which have arisen in the course of the audit.

Materiality

- 6.1 We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements we assess the materiality of uncorrected misstatements, both individually and collectively.
- 6.2 Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the independent auditor's report (the opinion); likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition as it has both qualitative and quantitative aspects.
- 6.3 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, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
- 6.4 An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, 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, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

2005/06 audit issues

7.1 We have listed below a number of national and local issues which may impact on the financial statements this year. During the period until the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

National Issues

- modified arrangements for the preparation of group accounts;
- operation of the prudential code in funding capital investment; and in the changes regarding the classification of certain revenue works previously charged as capital under the old section 94 arrangements;
- risks associated with the financial costs of equal pay and single status; and
- the classification of leases established under Section 94 as finance leases, now reclassified as operating leases under SSAP21.

Local Issues

- achievement of statutory and other financial targets, including the requirements for trading accounts;
- the continuing review of council services to ensure that trading activities are appropriately disclosed;
- consideration of disclosures for the Schools PPP and accounting treatment;
- consideration of disclosures with respect to Community Health Partnerships;
- disclosures required in the preparation of group accounts;
- disclosures in relation to FRS17 (Retirement Benefits);
- approval and application of policy in respect of reserves and balances, and
- the appropriate accounting treatment of lender option borrowing option arrangements (LOBOs).

Timetable

- 8.1 Under the Local Government (Scotland) 1973 Act, there is a requirement for the financial statements to be made ready for audit and submitted to the council and the Controller of Audit within three months of the year-end, i.e. 30th June.
- 8.2 There is a non-statutory target for audit completion of 30 September and both auditors and the council have a responsibility to ensure that this is met. A timetable for the final audit phase of our work programme is included at appendix 1 of this plan, which takes account of submission requirements, planned Audit Committee dates and audit resource availability. In respect of the detailed list of working papers required for the financial statements audit, the council provides a standard list of working papers which covers our requirements.

Staffing

9.1 The main officers with responsibility for the production and completion of the financial statements within Argyll and Bute Council are:

Head of Strategic Finance	Bruce West
Corporate Finance Manager	Moira Miller
Corporate Financial Control Officer	Kirsty McLean

9.2 The core audit team to be deployed are as follows:

Assistant Director of Audit	Angela Cassels CPFA
Client Manager	David Jamieson CPFA
Senior Auditor	Ian Bell CPFA
Auditor	Laurence Slavin

Appendix 1:

Financial statements audit timetable

Key Stage	Date
Close-down procedures	March 2006
Committee approval of unaudited financial statements	June 2006
Submission of unaudited financial statements with working papers package including ACOP checklist	30 June 2006
Progress meetings with lead officers on emerging issues	July / August 2006*
Objection period	July / August 2006*
Receipt of management representation letter	September 2006 *
Final clearance meeting with Head of Strategic Finance	September 2006 *
Report to Audit Committee on the audit of financial statements (ISA 260), signing of opinion	September 2006 *
Draft members letter issued	September 2006 *
Final clearance meeting (members letter) with the Chief Executive and Head of Strategic Finance	Mid October *
Council meeting to consider financial statements and report to members	November/ December 2006

* Actual dates to be confirmed