

Argyll and Bute Council

Audit Plan 2007-08

February 2008

ARGYLL AND BUTE COUNCIL AUDIT PLAN 2007 - 2008

CONTENTS

	PAGE
1 INTRODUCTION	1
2 FINANCIAL STATEMENTS	2
3 GOVERNANCE	6
4 PERFORMANCE	10
5 GRANT CLAIMS	13
6 AUDIT TEAM AND FEES	15

Appendix I : Summary of Planned Audit Reports and Outputs 2007-2008

Appendix II : Planned Reliance on Internal Audit

1 INTRODUCTION

- 1.1 Grant Thornton UK LLP has been appointed by the Accounts Commission for Scotland as the external auditor of Argyll and Bute Council (the Council) for the five year period commencing 2006-07. This Plan outlines how we will approach the audit of the Council in the second year of our appointment, and reflects our statutory duties and risk based approach.
- 1.2 Specific duties for external auditors are contained principally in the Local Government (Scotland) Act 1973, the Code of Audit Practice (the Code) and in the audit engagement letter issued to auditors by Audit Scotland. These include undertaking the audit in accordance with relevant legislation and Statements of International Auditing Standards and applicable Practice Notes issued by the Auditing Practices Board.
- 1.3 In accordance with the Code we have the following audit objectives:

Exhibit 1: Audit Objectives

Area	Audit Objectives
Financial statements	To provide an opinion on the Council's financial statements for the year ending 31 March 2008. Further details are provided in section 2.
Governance	To review and report on the Council's corporate governance arrangements, including: systems of internal control, arrangements for the prevention and detection of fraud and corruption, standards of conduct and the Council's financial position. Further details are provided in section 3.
Performance	To review and report on the Council's arrangements to achieve Best Value, other aspects of arrangements to manage performance as they relate to economy, efficiency and effectiveness in the use of resources and arrangements for preparing and publishing statutory performance indicators. Auditors' responsibilities in relation to Best Value are primarily discharged by Audit Scotland. Further details are provided in section 4.
Grant Claims	To provide an independent auditor's report on specified grant claims in accordance with Audit Scotland guidelines. Further details are provided in section 5.

- 1.4 In planning and carrying out the audit we will have due regard to the Statement of Responsibilities, issued by Audit Scotland, which sets out the respective roles and responsibilities of the Council and its auditors.
- 1.5 The Code requires us to take a risk based approach and our risk assessment, together with planned audit outputs, in relation to each of the above areas is summarised in the following sections of this plan. We will keep our initial risk assessments under review and discuss any significant changes to the nature and scope of our audit with you.
- 1.6 We set out in Section 6 details of our audit team and our proposed fee, based on our responsibilities and risk assessment. A summary of planned audit outputs and reports for the 2007-08 audit is contained at Appendix I.

2 FINANCIAL STATEMENTS

Introduction

- 2.1 The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources. It is the responsibility of the Council to:
- i ensure the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
 - ii maintain proper accounting records; and
 - iii prepare financial statements which present fairly the financial position of the Council and its expenditure and income in accordance with the Statement of Recommended of Practice (SORP).
- 2.2 The auditor is required to audit the financial statements and to give an opinion as to:
- i whether they present fairly the financial position of the Council and its expenditure and income for the period in question;
 - ii whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - iii whether the Statement on Internal Control has been presented in accordance with relevant requirements and to report if it does not meet these requirements, or if the statement is misleading or inconsistent with our knowledge.

Overall Approach

- 2.3 In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:
- i internal audit, to determine the extent of reliance we can place on it for the purposes of our audit (Appendix II summarises the areas of internal audit work we plan to place reliance on);
 - ii the internal control framework for key financial systems;
 - iii review of computerised controls operating across major IT systems;
 - iv the materiality of balances and transactions impacting on the financial statements;
 - v the key risks relevant to the preparation and audit of the financial statements; and
 - vi the Council's arrangements for the preparation of its financial statements and for the Whole of Government Accounts consolidation pack.

Risk Assessment and Audit Response

- 2.4 Our audit work is risk based and proportionate. On the basis of our preliminary work to date, we have identified the following audit risks in relation to the financial statements aspect of our audit:

Exhibit 2: Financial Statements Audit Risk Assessment

Key risk area	Our response
<p><i>Statement of Recommended Practice (SORP)</i></p> <p>The 2007 SORP introduces a number of changes to the presentation of the Council's 2007-08 financial statements, following significant changes implemented in 2006-07. Key changes for 2007-08 are:</p> <ul style="list-style-type: none"> ▪ replacement of the fixed asset restatement reserve and capital financing reserve by a revaluation reserve and capital adjustment account; ▪ implementation of Financial Reporting Standards 25, 26 and 29 and the associated impact on accounting for premiums from debt rescheduling; and ▪ the requirement to prepare for the implementation of International Financial Reporting Standards (IFRS). <p>It will be important that the Council adopts arrangements to comply with the SORP at an early stage in the financial year to avoid any risk of material misstatement or failure to achieve publication deadlines.</p>	<p>We will discuss the implications of the SORP changes to the presentation of the 2007-08 financial statements at an early stage in the audit process.</p> <p>A joint Council/Grant Thornton workshop covering the 2007-08 SORP and accounts closedown and audit arrangements is planned for 12 February 2008.</p>
<p><i>Trading operations</i></p> <p>The Council did not meet the financial break-even target for a number of its statutory trading operations (STOs) during 2006-07. The Council has agreed undertake a best value review of its STOs to identify how best value expectations will be met going forward.</p>	<p>We will review the Council's arrangements for trading operations and assess performance in meeting the statutory break-even target as part of our financial statements audit.</p>

Key risk area	Our response
<p><i>Reserves & Balances</i></p> <p>The Council holds significant reserves and balances to meet both planned expenditure and unforeseen financial costs. The Council's arrangements are prudent, but more could be done to better clarify how the Council proposes to apply some earmarked balances.</p>	<p>We will review the Council's financial planning and budgetary control arrangements to ensure compliance with good practice.</p>
<p><i>Schools NPDO</i></p> <p>The Council has developed a pathfinder non-profit distributing organisation (NPDO) approach for the improvement of the school estate. Construction has started and the Council currently expects hand-over to take place during the 2007-08 financial year.</p> <p>The project requires a significant financial commitment from the Council over the life of the contract.</p>	<p>We will review of the proposed balance sheet treatment of the schools asset as part of our audit of the Council's 2007-08 financial statements.</p>
<p><i>Single Status and Equal Pay</i></p> <p>Following the 'equal pay' review, the Council made compromise payments of £4.2 million to some categories of female employees in February 2006.</p> <p>Following the 'single status' review, the Council made a final offer to employees, to implement a new pay and grading model. This model will add £6.2 million to the Council's annual wage bill from 2008-09.</p> <p>It is important that the Council formalises its agreements on single status and equal pay to establish future financial commitments, to resolve existing claims for compensation, and limit the potential for future claims to emerge.</p>	<p>We will monitor events in relation to the implementation of the single status and equal pay agreements and review the adequacy of the Council's provision for these costs as part of our financial statements audit.</p>

Audit Timetable and Planned Audit Outputs

2.5 The planned outputs from our financial statements audit, and the proposed dates for the fieldwork, are summarised in Exhibit 3 below:

Exhibit 3: Audit Timetable and Planned Outputs

Audit Output – Financial Statements	Fieldwork	Target Delivery Date (Final Report)
Interim Accounts Report	February – April 2008	30 May 2008
Accounts Report (ISA 260)	July – September 2008	early September 2008

3 GOVERNANCE

Introduction

- 3.1 Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. The Council is responsible for putting in place arrangements for the conduct of its affairs, including compliance with applicable guidance, ensuring the legality of activities and transactions and monitoring the adequacy and effectiveness of these arrangements in practice. The Council's Audit Committee has a role in monitoring these arrangements.
- 3.2 Commensurate with the wider scope of a public sector audit, the Code gives the auditor a responsibility to review and, where appropriate, report findings on the Council's corporate governance arrangements as they relate to:
- i the Council's review of its systems of internal control, including its reporting arrangements;
 - ii the prevention and detection of fraud and irregularity;
 - iii standards of conduct, and arrangements in relation to the prevention and detection of corruption; and
 - iv the financial position of the Council.

Overall Approach

- 3.3 We will assess the adequacy of the Council's governance arrangements by:
- i updating our review of the Council's overall arrangements in relation to each of the above areas;
 - ii updating our review of the extent of compliance with the 'Code of Practice for Internal Audit in Local Government'; and
 - iii evaluating the Council's approach to risk management, including arrangements to address the key risks identified in this section of the audit plan.

Risk Assessment and Audit Response

- 3.4 On the basis of our preliminary work to date, we have identified the following audit risks in relation to the governance aspect of our audit:

Exhibit 4: Governance Audit Risk Assessment

Key risk area	Our response
<p><i>Political Governance and Scrutiny</i></p> <p>The Audit Committee represents the main body for reviewing the effectiveness of the Council's governance, internal control and risk management arrangements and is, therefore, a key part of the Council's scrutiny framework.</p> <p>The Council increasingly works in partnerships with a range of organisations to achieve its corporate goals and objectives. These more complex service delivery arrangements increase the risk that current scrutiny arrangements may not be effective.</p> <p>The Council has also recently established its Policy Performance Groups to better focus scrutiny of performance across corporate policy objectives.</p>	<p>We will monitor the Council's developing governance arrangements, in particular we will undertake a review of the Council's audit committee arrangements, including its relationships with Policy Performance Groups, against existing good practice guidance.</p>
<p><i>Contract Management</i></p> <p>The Council spends significant sums annually on its capital programme and needs effective contract management arrangements in place to ensure capital projects are prioritised in accordance with corporate priorities, contracts are awarded in line with legislative requirements, and good budget and project management arrangements are in place to contain costs.</p>	<p>We will review the Council's overall contract management arrangements and undertake a review of a sample of significant projects, including the Oban Airport contract.</p>

Key risk area	Our response
<p><i>Financial Management and Budgetary Control</i></p> <p>The Council is forecasting a funding gap over the next 5 years and a need for efficiency savings in excess of £5 million for 2007-08. This presents a significant challenge to develop a sustainable medium term financial strategy that delivers a balanced budget.</p> <p>The Council adopt a traditional approach to financial management and budgetary control, but more could be done to better align budgets to the corporate plan and performance.</p>	<p>We will assess the adequacy of the Council's financial management and budgetary control arrangements as part of our overview of governance arrangements.</p>
<p><i>Internal Audit</i></p> <p>The Council's internal audit section is a key part of the Council's governance arrangements. If internal audit is to be effective, it must be independent, properly resourced and comply with relevant best practice in planning and undertaking its work.</p>	<p>We will follow up the Council's progress in implementing the agreed recommendations from our 2006-07 report on Internal Audit.</p>
<p><i>National Fraud Initiative</i></p> <p>There is scope to better utilise the information emerging from the National Fraud Initiative (NFI) on an ongoing basis to assist in the detection of fraud.</p>	<p>We will review the use made by the Council of the output of the NFI exercise including benefits, payroll and other data.</p> <p>We will prepare a questionnaire response to Audit Scotland on the outcomes from the 2006-07 NFI exercise for the Council.</p>

Audit Timetable and Planned Audit Outputs

3.5 The planned outputs from our governance audit, and the proposed dates for the fieldwork, are summarised in Exhibit 5 below:

Exhibit 5: Audit Timetable and Planned Outputs

Audit Output – Governance Audit	Fieldwork	Target Delivery Date (Final Report)
Contract Management	February – March 2008	30 April 2008
Governance Report	February 2008	30 May 2008
Fraud Returns to Audit Scotland	Ongoing	30 May 2008
NFI Questionnaire Response to Audit Scotland	February 2008	29 February 2008

4 PERFORMANCE

Introduction

- 4.1 The Local Government in Scotland Act 2003 introduced statutory duties relating to Best Value and Community Planning. The scope of Best Value and Community Planning is very broad but in general terms a successful council will:
- i work with its partners to identify a clear set of priorities that respond to the needs of the community in both the short and the longer term;
 - ii be organised to deliver those priorities;
 - iii meet and clearly demonstrate that it is meeting the community's needs; and
 - iv operate in a way that drives continuous improvement in all its activities.
- 4.2 It is the responsibility of the audited body to ensure that these matters are accorded the appropriate priority and resources, and that proper procedures are established and operate satisfactorily. Achievement of value for money by the Council depends on the existence of sound management arrangements in relation to its services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources.
- 4.3 The wider dimension of public sector audit requires that the audit process give consideration to the way in which the Council secures economy, efficiency and effectiveness in the use of its resources.

Audit Approach

- 4.4 We will assess the adequacy of the Council's arrangements for performance management and the achievement of Best Value by:
- i working with Audit Scotland, to follow up the Council's progress in addressing the key findings emerging from the recent Best Value report;
 - ii reviewing the Council's arrangements for identifying, measuring and reporting efficiency savings under the efficient government agenda;
 - iii assessing the Council's progress in implementing an effective performance management system; and
 - iv evaluating the effectiveness of management arrangements for reporting performance through statutory performance indicators. We will place reliance on internal audit to confirm the accuracy of data reported.

Risk Assessment and Audit Response

4.5 On the basis of our preliminary work to date, we have identified the following audit risks in relation to the governance aspect of our audit:

Exhibit 6: Performance Audit Risk Assessment

Key risk area	Our response
<p><i>Best Value</i></p> <p>The Accounts Commission published its report on the Best Value assessment of the Council in February 2006 and indicated its intention to follow up progress in addressing the issues raised in its report in 2007-08.</p> <p>Our assessment of progress in 2006-07 found that the Council had responded positively to Audit Scotland's Best Value report but must now focus on turning strategies into action to embed best value principles throughout the organisation.</p>	<p>Audit Scotland and Grant Thornton will work in partnership to undertake an assessment of the Council's progress in addressing the key issues raised in the Accounts Commission's Report.</p> <p>We will discuss and agree the detailed focus of our work with the Council at an early stage in the planning process. Key areas of focus are likely to include:</p> <ul style="list-style-type: none"> ▪ governance; ▪ performance management; ▪ risk management; ▪ asset management; and ▪ financial management.
<p><i>Efficient Government</i></p> <p>The Council continues to face significant challenges in refocusing its resources on service delivery. Good progress has been made in a number of areas, however, significant effort will be required to deliver the level of efficiencies required while continuing to improve performance.</p>	<p>We will review the Council's arrangements for identifying, measuring and reporting efficiency savings under the efficient government agenda.</p>
<p><i>Statutory Performance Indicators</i></p> <p>The Council is required to prepare statutory performance indicators (SPIs) in accordance with a direction issued annually by the Accounts Commission. We audit these indicators to ensure they are prepared in accordance with the guidance. SPIs continue to represent the main source of performance information for the Council.</p>	<p>We will review the Council's arrangements for compiling and reporting SPI information in accordance with the Direction issued annually by Audit Scotland.</p>

Audit Timetable and Planned Audit Outputs

4.6 The planned outputs from our performance audit, and the proposed dates for the fieldwork, are summarised in Exhibit 7 below:

Exhibit 7: Audit Timetable and Planned Outputs

Audit Output – Performance Audit	Fieldwork	Target Delivery Date (Final Report)
Controller of Audit Report - Best Value Progress Report	April – May 2008	30 June 2008
Statutory Performance Indicators – Audit Scotland Return	August 2008	30 August 2008

5 GRANT CLAIMS

Introduction

- 5.1 We will audit the grant claims notified to us by the Council at the start of the audit, and authorised for audit by Audit Scotland, which are:
- i housing and council tax benefits;
 - ii supporting people;
 - iii education maintenance allowances; and
 - iv non-domestic rates.

Overall Approach

- 5.2 Audit Scotland issue guidance to auditors on the audit of grant claims authorised for audit in agreement with the Scottish Government. Audit Scotland's guidance determines the extent of audit testing required for each specific grant claim.
- 5.3 In order to gain sufficient assurance to support our opinion on each grant claim, we are required to carry out reviews of:
- i the Council's arrangements for the preparation of each claim submitted for audit;
 - ii internal audit to determine the extent of reliance we can place on it for the purposes of our audit (Appendix B summarises the areas of internal audit work we plan to rely on);
 - iii the effectiveness of the internal control framework for key financial systems relevant to each grant claim;
 - iv the materiality of balances and transactions impacting on each grant claim; and
 - v the key risks relevant to the preparation and audit of each grant claim.
- 5.4 Additional grant claims submitted for audit not listed above will be audited in agreement with Audit Scotland and subject to additional fee arrangements in negotiation with the Council.

5.5 Exhibit 8 below lists the claims we expect to receive for audit, the deadlines for submission to external audit and the certification deadline.

Exhibit 8: Grant Claims due for Audit

Grant Claims	Submission to External Audit Deadline	Certification Deadline
Housing and Council Tax Benefits	30 September 2008	31 November 2008
Supporting People	30 June 2008	30 September 2008
Education Maintenance Allowances	30 June 2008	31 July 2008
Non-domestic Rates	30 September 2008	8 February 2009

6 AUDIT TEAM AND FEES

The Audit Team

Exhibit 9: Key Members of the Audit Team

Role	Experience
<p>Sarah Howard Engagement Partner</p> <p>Email: sarah.howard@gtuk.com Tel: 07831 564148</p>	<p>Overall responsibility for delivery of the audit, liaison with management and the audit committee.</p>
<p>Gary Devlin Client Service Manager</p> <p>Email: gary.devlin@gtuk.com Tel: 0131 659 8554</p>	<p>Responsible for day to day management of the audit, liaison with management and the audit committee.</p>
<p>Stephen Vallely Lead Auditor</p> <p>Email: stephen.vallely@gtuk.com Tel: 0131 659 8572</p>	<p>Responsible for managing the onsite fieldwork during the interim and final audits.</p>
<p>Paul Spinks Senior Technical Manager</p> <p>Email: paul.spinks@gtuk.com Tel: 07798 831962</p>	<p>Responsible for providing specialist technical input to the financial statements audit, including advising on the implementation of the 2007 SORP and IFRS.</p>

- 6.1 We are not aware of any relationships that may bear on the independence and objectivity of the team which are required to be disclosed under Auditing Standards.
- 6.2 The core audit team will call on other specialist and support staff, as necessary, during the course of the audit.
- 6.3 If at any time you wish to discuss how our services may be improved or if you are in any way dissatisfied with the audit service you are receiving please contact Sarah Howard or Richard Tremeer, our National Head of Government Audit Services.

The Audit Fee

6.4 Our audit fee is calculated in accordance with the guidance issued by Audit Scotland for determining the fee level for local government bodies. The fee is based on our professional assessment of the level of audit risk associated with a particular body. Audit Scotland requires that the agreed fee for the audit is set within the limits of the indicative fee range. Placement within the range depends on the level of work we consider necessary to perform the audit and is influenced by the number and level of risks facing the Council. In addition to the fee for the audit, Audit Scotland charges a fixed central overhead fee to meet its central running costs.

6.5 Our 2007-08 audit fee has been set above the indicative fee level, and within Audit Scotland's proposed range, to take account of additional work in relation to the following:

- the proposed audit of contracts management;
- follow-up work on Best Value; and
- audit requirements emerging from the introduction of the 2007 SORP and IFRS reporting requirements.

6.6 The fee includes:

- i all of the work and outputs described in this plan;
- ii attendance at audit committees and other meetings;
- iii access to advice and information on relevant audit issues;
- iv access to workshops/seminars on topical issues; and
- v all travel and subsistence costs.

6.7 The table below shows the proposed audit fee, plus Audit Scotland's fixed charge for the year ending 31 March 2008.

Exhibit 10: Proposed Fee

Area	2007-08	% Change
Indicative fee	£189,500	+2.5%
Proposed Grant Thornton fee	£204,000	+2.2%
Audit Scotland fixed charge	£ 89,200	+3.2%
Total	£293,200	+2.6%

Audit fees are inclusive of VAT and expenses.

- 6.8 Our fee is based on a number of assumptions, in particular:
- i an effective and smooth closedown and audit of the accounts, in accordance with an agreed timetable, together with availability of working papers at the commencement of the audit in accordance with our client working paper request list; and
 - ii the completion by internal audit of reviews of the areas set out in Appendix II.
- 6.9 Where we are required to undertake additional work not outlined in this plan, including, for example, challenge work, PFI opinions, any work directed by Audit Scotland, and grant claims not listed in Section 5, we will agree an additional fee with the Council in advance.

SUMMARY OF PLANNED AUDIT REPORTS AND OUTPUTS 2006-2007

Audit Area	Target Delivery Date (Final Report)
Financial Statements Audit Interim Accounts Report Accounts Report (ISA 260)	 30 May 2008 30 September 2008
Governance Audit Contract Management Governance Report	 30 May 2008 30 June 2008
Performance Audit Best Value – follow up review Statutory Performance Indicators – Audit Scotland Return	 30 July 2008 30 August 2008
Grant Claims Audit Housing and Council Tax Benefits Supporting People Education Maintenance Allowances Non-domestic Rates	 30 November 2008 30 September 2008 31 July 2008 8 February 2009
Overall Audit Annual report to Members and the Accounts Commission	 30 September 2008

Status of our Reports to the Council

- 6.10 Our reports are prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland. Reports are addressed to Members or officers and are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

RELIANCE ON INTERNAL AUDIT

Auditing standards require internal and external auditors to work closely together to make optimal 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 annual assessment of the internal audit function.

The Council operates with a small internal audit section and has appointed KPMG to provide additional support on a contract basis. We will review the work of internal audit to determine the extent of reliance we can place on it for the purposes of our audit. This avoids unnecessary duplication of audit work, and minimises any disruption to the Council caused by the audit process.

Based on a review of the internal audit plan for 2007-08, we will plan to place reliance on the work of internal audit in the following areas:

- Payroll;
- Council tax and Non-domestic Rates;
- Creditor payments;
- General Ledger operations;
- Cash income and banking;
- Purchasing IT and e-procurement;
- Capital;
- Unified Benefits System;
- Debtor accounts;
- Statutory Performance Indicators;
- Stocktaking;
- Payments to voluntary bodies; and
- Contract higher and operating leases.