

Argyll and Bute Council

Audit Plan 2008-09

January 2009

ARGYLL AND BUTE COUNCIL AUDIT PLAN 2008 - 2009

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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 third 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 2009. 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 2008-09 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 B 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>2008 SORP and International Financial Reporting Standards</i></p> <p>Local government bodies will be required to prepare their accounts on the basis of IFRS from 2010-11, with shadow IFRS-based accounts required for 2009-10.</p> <p>HM Treasury will require local authorities to restate PFI or PPP schemes under IFRS for the 2008-09 Whole of Government Accounts Return.</p> <p>The transition to IFRS is complex, and will detailed project planning to ensure the Council is able to fully implement the standard in line with the planned timetable.</p>	<p>We will discuss the implications of the changes required under IFRS at an early stage in the audit process and review the adequacy of the Council's IFRS project plan as part of our 2008-09 audit.</p> <p>A joint Council/Grant Thornton workshop covering the 2008-09 SORP and accounts closedown and audit arrangements will take place on 5 February 2009.</p> <p>The Council has already started work on reviewing its PPP/PFI schemes and we plan to review this work for reliance.</p>
<p><i>Specific Accounting Issues</i></p> <p>The following specific accounting issues were identified at the conclusion of the 2007-08 audit:</p> <ul style="list-style-type: none"> ▪ compliance with the 2007 SORP in reporting the results of third party trading in the Income and Expenditure Account ▪ compliance with the 2007 SORP in charging depreciation on surplus assets 	<p>We will meet with the Finance Team early in the audit year to identify the Council's proposals for addressing these issues in the 2008-09 financial statements.</p>

Key risk area	Our response
<p><i>Reserves & Balances</i></p> <p>At 31 March 2008, the Council held unearmarked general fund reserves of £4.9 million, which represents 2.3% of net operating expenditure for 2007-08.</p> <p>For 2008-09, the target level of unearmarked reserves will be reduced to 1.5% of net operating expenditure. It is unlikely that this revised target will be met due to cost pressures on the Council during the year.</p> <p>In November 2008, CIPFA published LAAP Bulletin 77, Local Authority Reserves and Balances which gives guidance on maintaining adequate reserves.</p>	<p>We will follow up the Council's progress in implementing agreed recommendations to improve financial planning and budgetary control arrangements.</p>
<p><i>Specific internal control issues</i></p> <p>The following weaknesses in internal control were identified at the conclusion of the 2007-08 audit:</p> <ul style="list-style-type: none"> ▪ ensuring bank reconciliations are prepared and reviewed in a timely manner ▪ identifying and closing down any dormant bank accounts ▪ improving management of outstanding debtor accounts ▪ improving documentation of loan and investment decisions 	<p>We will follow up the progress of agreed audit action points in our 2008-09 audit and report on the progress of implementation.</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 Report	February – April 2009	30 June 2009
Accounts Report (ISA 260)	July – September 2009	early September 2009

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 should have 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 reviewing the Council's overall arrangements in relation to each of the above areas;
 - ii reviewing 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>We will follow up the Council's progress in implementing the agreed recommendations from our 2007-08 audit of the Council's audit committee arrangements.</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><i>Contract Management</i></p> <p>The Council spends significant sums annually on its capital programme and needs effective contract management arrangements.</p> <p>In 2007-08, we carried out a review of the main aspects of contract management and found weaknesses in the Council's contract management arrangements, particularly in relation to the management of the Argyll Air Services Project.</p>	<p>We will follow up the Council's progress in implementing the agreed recommendations from our 2007-08 report on contract management.</p>

Key risk area	Our response
<p>Internal Audit</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>The Council has not yet finalised plans for the appointment of a Head of Internal Audit.</p>	<p>We will follow up the Council's progress in implementing the agreed recommendations from our 2006-07 report on Internal Audit.</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)
Interim Report	March - April 2009	30 June 2009
Fraud Returns to Audit Scotland	Ongoing	30 May 2009

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 undertaking a follow up review of 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 follow up report on the Best Value assessment of the Council in December 2008. The key finding from this review was that the Council should focus on turning strategies into action to embed best value principles throughout the organisation.</p>	<p>We will assess the Council's progress in achieving its Improvement Plan as part of our follow-up of progress in implementing the key recommendations emerging from our 2007-08 best value audit.</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>
<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>

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)
Best Value Progress Report	September 2009	30 October 2009
Statutory Performance Indicators – Audit Scotland Return	August 2009	30 August 2009

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 education maintenance allowances; and
 - iii 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 Executive. 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 II 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	31 May 2009	30 November 2009
Education Maintenance Allowances	30 June 2009	31 July 2009
Non-domestic Rates	30 September 2009	February 2010

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>	Overall responsibility for delivery of the audit.
<p>Gary Devlin Client Service Manager</p> <p>Email: gary.devlin@gtuk.com Tel: 0131 659 8554</p>	Responsible for day to day management of the audit.
<p>Stephen Vallely Assistant Manager</p> <p>Email: stephen.vallely@gtuk.com Tel: 0131 659 8572</p>	Responsible for managing the onsite fieldwork.
<p>Paul Spinks Senior Technical Manager</p> <p>Email: paul.spinks@gtuk.com Tel: 07798 831962</p>	Responsible for providing specialist technical input to the financial statements audit, including advising on the implementation of the 2008 SORP and IFRS.
<p>Raul Rodriguez Technology and Risk Services</p> <p>Email: raul.rodriguez@gtuk.com Tel: 0131 659 8534</p>	Responsible for managing the audit of IT systems and applications

- 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 (richard.tremeer@gtuk.com, 020 7728 3440).

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 For our 2008-09 audit, we are proposing a modest increase of 3% on the 2007-08 fee level. The fee includes:
- i all of the work and outputs described in this plan, including additional work associated with the audit of IFRS compliance for whole of government accounts;
 - 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.
- 6.6 The table below shows the proposed audit fee, plus Audit Scotland's fixed charge for the year ending 31 March 2009. Audit Scotland has also indicated that it will pay a rebate to charge payers in 2008-09, following a decision to reduce its level of reserves. The rebate for Argyll and Bute Council has been set at £15,800 resulting in an overall reduction in the audit fee of £5,100 (1.7%) from 2007-08 levels as reflected in the table below:

Exhibit 10: Proposed Fee

Area	2008-09	2007-08	% Change
Proposed Grant Thornton fee	210,100	204,000	+3%
Audit Scotland fixed charge	93,800	89,200	+5.2%
Audit Scotland rebate	(15,800)	-	-
Total	288,100	293,200	-1.7%

Audit fees are inclusive of VAT and expenses.

- 6.7 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.
- 6.8 Where we are required to undertake additional work not outlined in this plan, 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

Audit Area	Target Delivery Date (Final Report)
Financial Statements Audit Interim Report Accounts Report (ISA 260)	30 June 2009 early September 2009
Governance Audit Interim Report	30 June 2009
Performance Audit Best Value – follow up review Statutory Performance Indicators – Audit Scotland Return	30 October 2009 30 August 2008
Grant Claims Audit Housing and Council Tax Benefits Education Maintenance Allowances Non-domestic Rates	30 November 2009 31 July 2009 8 February 2010
Overall Audit Annual report to Members and the Accounts Commission	30 September 2009

Status of our Reports to the Council

- 6.9 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 which has undergone a period of significant change in recent years. 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 2008-09, we will plan to place reliance on the work of internal audit in the following areas:

- IT audit, including reviews of data protection and information security
- Political governance
- Corporate procurement
- Budget monitoring
- Grant claim reviews
- National Fraud Initiative
- Statutory Performance Indicator
- Council tax
- Debtors
- Asset management
- Payroll
- Risk management.