

Audit Approach Memorandum

Argyll and Bute Council

For the year ended 31 March 2011

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Grant Thornton UK LLP

To the Members of Argyll and Bute Council

We have been appointed as external auditors to Argyll and Bute Council for a five year period to the year ended 31 March 2011. This is, therefore, the final year of our appointment under the current framework contract with the Accounts Commission for Scotland. We would like to thank all staff and members of the Council for the kind help and support during the period of our appointment.

This memorandum highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260 and the Code of Audit Practice issued by Audit Scotland

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. This memorandum has been prepared on the basis of the limitations set out in 'The small print' in Section 7.

We look forward to working with you during the course of the audit.

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1 Introduction

1.1 Introduction

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 memorandum outlines how we will approach the audit of the council in the final year of our appointment, and reflects our statutory duties and risk based approach.

Specific duties for external auditors are concerned principally with the Local Government (Scotland) Act 1973, the Code of Audit Practice 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 Internal Auditing Standards and applicable Practice Notes issued by the Auditing Practice Board.

1.2 Roles and Responsibilities

The Code of Audit Practice (the Code) is issued by Audit Scotland on behalf of the Auditor General and the Accounts Commission for Scotland. The Code defines responsibilities of appointed auditors when auditing public sector bodies.

The Code requires us to take a risk based approach. Our risk assessment in relation to each of the above areas is therefore summarised in the following sections of this plan. We will keep our initial risk assessment under review and discuss any significant changes to the nature and scope of our audit with you.

1.3 Summary of audit objectives

Area	Audit Objectives
Financial statements	To provide an opinion on the council's financial statements for the year ended 31 March 2011. Further details are provided in Section 2.
Governance	To review and report on the council's corporate governance arrangements, including systems of internal control. Further details are provided in Section 3.
Performance	To review and report on the council's arrangements to achieve best value and economy, efficiency and effectiveness in the use of resources. Further details are provided in Section 4.
Grant Claims	We will provide independent auditor's reports on specific grant claims in accordance with Audit Scotland guidelines. Further details are provided in Section 5.

A summary of planned audit outputs and reports for the 2010-11 audit is set out in Appendix A, and our planned reliance on internal audit is set out in Appendix B.

1.4 Other matters

We set out in Section 6 details of our audit team and our proposed fee, based on our responsibilities and risk assessment.

2 Financial statements

2.1 Introduction

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:

- 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
- maintain proper accounting records
- prepare financial statements which give a true and fair view of the financial position of the council and its expenditure and income in accordance with the Code of practice on local authority accounting in the United Kingdom (the Code).

The auditor is required to audit the financial statements and to give an opinion as to:

- whether they give a true and fair view of the financial position of the council and its expenditure and income for the period in question
- whether they have been prepared properly in accordance with the Code, relevant legislation, applicable accounting standards and other reporting requirements
- 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.

2.2 Overall approach

In order to gain sufficient assurance to support our opinion on the financial statements, we will carry out a review of:

- 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)
- the internal control framework for key financial systems
- review of computerised controls operating across major IT systems
- the materiality of balances and transactions impacting on the financial statements
- the key risks relevant to the preparation and audit of the group financial statements
- the council's arrangements for the preparation of its group financial statements and for the Whole of Government Accounts consolidation pack.

Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed individually and in aggregate and discussed with you. Where management choose not to adjust their accounts for identified differences, we will require

them to confirm in a letter of representation to us, their view that these differences are not material to the financial statements.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of remuneration. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify potential areas of higher audit risk that could lead to material misstatement. These areas normally represent the higher value and/or more complex financial systems, and do not necessarily reflect an assessment that controls are not operating effectively. The higher risk areas we have identified for 2010-11 are:

- creditor payments
- payroll
- council tax and non-domestic rates
- fixed assets.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

2.3 Risk assessment and response

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

We will report to you in our Report on the 2010-11 Accounts Audit our findings and conclusions in respect of each of the risks that we have identified at the planning stage of the audit.

2.4 Key audit issues

Issue	Response
<p>International Financial Reporting Standards</p> <p>2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS). The move to an IFRS-based Code from a UK GAAP-based SO RP has resulted in a number of significant changes in accounting practice that the Council will need to take into account when preparing the 2010/11 financial statements. A key aspect of IFRS accounting in respect of private finance initiative and similar contracts was introduced in the 2009 SO RP. The key accounting changes for 2010-11 include:</p> <ul style="list-style-type: none"> • a greater emphasis on depreciation of asset components, and a new classification of assets held for sale' • changes in the classification of leases, and a new requirement to account for arrangements containing a lease • a change in accounting treatment for grants and contributions used to fund capital expenditure • a requirement to recognise a liability for untaken annual leave and flexi-time accruals • new disclosure requirements for accounting standards not yet adopted, key assumptions and judgements, changes in respect of prior period adjustments, and operating segments. 	<p>We carried out an interim review of the council's preparations for IFRS as part of our 2009-10 annual audit. The council has adopted detailed planning arrangements and has created an IFRS Working Group to take forward preparations for full adoption.</p> <p>We have continued to liaise with the finance team on issues relating to the implementation of IFRS as they arise. In addition, we will address key IFRS accounting issues in our finance team workshop arranged for 1 March 2011.</p> <p>We will work with the council's finance team throughout the year and monitor the Working Group's progress early in the audit year to ensure that the Council remains on track to meet the final accounts deadline.</p>
<p>The Council is also required to restate its 2009-10 accounts under IFRS to report comparative information.</p>	

Financial Position

The Scottish Government announced the financial settlement for local authorities for 2011-12 in December 2010. Argyll and Bute's settlement for 2011-12 will be £220.059 million (£231.448 million 2010-11).

The initial reduction in the Council's budget settlement for 2011-12 was £11.389 million (4.9%), which is significantly higher than the national average of 2.59%. The Council's higher share of the cuts reflects significant variation in funding for two areas:

- the Special Islands Needs Allowance (SINA) following the reclassification of Seil as an island which leads to a reduction of £400,000
- Supporting people allowance - a reduction of £5.6 million due to an alteration in the distribution process for this allowance by the Scottish Government.

A later re-allocation of government funding provided an additional £1.3 million in funding to the Council, giving a total reduction for 2011-12 of £10 million.

The Council had already planned for expected budget reductions, however the actual reductions for 2010-11 are significantly higher than expected. The Council has now finalised its proposals to set a balanced budget for 2011-12, with the budget approved on 10 February 2011.

Throughout 2009-10 the Council has been analysing the impact of reductions in central government support, and performing scenario planning to determine the likely impact on its financial position. As part of this, the Council has asked services to perform service reviews to identify options if they had to operate on 15% less budget. A key risk going forward is ensuring that budget savings identified are realized.

We will review the Council's progress in meeting its cost reduction and efficiency improvement plans. We will also consider the adequacy of the Council's financial management and budgetary control procedures.

3 Governance

3.1 Introduction

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.

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:

- the council's review of its systems of internal control, including its reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct, and arrangements in relation to the prevention and detection of corruption
- the financial position of the Council.

3.2 Overall Approach

We will assess the adequacy of the council's governance arrangements by:

- reviewing the council's overall arrangements in relation to each of the above areas
- reviewing the extent of compliance with the Code of Practice for Internal Audit in Local Government
- evaluating the council's approach to risk management, including arrangements to address the key risks identified in this section of the audit plan.

3.3 Risk assessment and response

On the basis of our preliminary work to date, we have identified the audit risks outlined in section 3.4 in relation to the governance aspects of our audit:

3.4 Key governance issues

Issue	Response
<p>National Fraud Initiative</p> <p>The National Fraud Initiative (NFI) is a nationwide data matching exercise run jointly by Audit Scotland and the Audit Commission. The 2010-11 exercise is now underway. The role of external audit in NFI is to review the Council's procedures for managing the exercise and the progress in pursuing potential frauds highlighted by the data matching exercise.</p>	<p>We have followed up the Council's progress in processing NFI matches, and all the relevant matches have now been assigned.</p> <p>We will report on the Council's performance in the NFI cycle and summarise our findings in our Interim Management Report.</p>
<p>In previous years we have highlighted weaknesses in the Council's arrangements for processing matches, in particular:</p> <ul style="list-style-type: none">• The Council should prioritise the review and processing of the highest quality data matches and ensure these are processed in a timely manner• Staff in relevant departments should be assigned responsibility to review and process the NFI matches• The Council should consider submitting creditors data for the next NFI exercise• The key contact should review the required access to the NFI system for the 2010-11 exercise and ensure only appropriate staff have been given access.	
<p>We are aware the Council are working to address these issues in the 2010-11 cycle.</p>	

Contract management

Internal audit carried out a review of the Port Askaig redevelopment project during 2009-10, and a report was submitted to the Audit Committee in September 2009 highlighting the findings. The project relates to redevelopment of the harbour and associated facilities in Port Askaig on the island of Islay.

The report made a number of recommendations on contract management and the approval process for capital projects, the majority of which are addressed by the new Gateway procedures and the role of the Council's Asset Management Board.

There are however a number of ongoing issues with the project, including a dispute with Caledonian Macbrayne on the compatibility of the ferry used for the Islay-Jura route.

We will liaise with internal audit to update our review of this project in our 2010-11 audit.

Our findings will be reported in our Interim Management Report.

Corporate Restructuring

The Council successfully completed a significant restructuring of the strategic management team and service heads in 2009-10. This involved replacing the four Strategic Directors with three Executive Directors, and a restructure of the services, with a realignment of services leading to the creation of 12 new services to replace the previous 15.

The next stage of the Council's restructuring is formal consultation with the trades unions and employee representatives on redundancy for all other staff members as part of its efforts to reduce its budget over the next three years. During 2010-11, the Council invited staff to apply for voluntary redundancy, although it is recognised that compulsory redundancies are likely to be required following the finalisation of the 2011-12 budget.

We reviewed the Council's arrangements for restructuring its strategic management team in our 2009-10 audit. As part of our 2010-11 audit, we will review the Council's arrangements for restructuring other parts of the organisation to ensure it is in compliance with relevant legislation and guidance. Our review will also consider the costs of the scheme and whether they offer best value to the Council.

We will apply Audit Scotland's guidance note on severance as a guide for completing this area of work.

Internal Audit

We have continued to follow up our recommendations following our 2006-07 review of the Council's internal audit department against the requirements of the Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code) issued by CIPFA. In

We will continue to monitor the Council's future strategy for internal audit and consider ongoing compliance with the Code of Practice. We will also assess the extent to which the Council meets the requirements of CIPFA guidance on the role of the Head of Internal

addition, in our 2008-09 audit, we recommended that the Council Audit perform a review of the future strategic direction of internal audit and consider the best way of providing the service.

In June 2010, the Council appointed a head of internal audit to lead the internal audit section, and this implements one of the main areas of previous non-compliance with the Code.

The Council is currently undertaking a best value review of the internal audit department and expects to report the outcomes from this review alongside its overall review of support services.

4 Performance

4.1 Introduction

The Local Government in Scotland Act 2003 established Best Value as a statutory requirement for all councils. The Act defines Best Value as 'continuous improvement in the performance of the authority's functions'. The objective of Best Value is to ensure that councils deliver better and more responsive public services by:

- balancing the quality of services with cost
- continuously improving the services provided
- being accountable and transparent, by listening and responding to the local community
- achieving sustainable development in how the council operates
- ensuring equal opportunities in the delivery of services.

4.2 Audit Approach

Under the National Scrutiny Plan for Local Government 2010-11, Scotland's scrutiny agencies work together to develop a shared risk assessment and Assurance and Improvement Plan (AIP) for each council area. During 2009-10, we followed up the progress made by the council, both in addressing the improvement agenda and against specific areas of risk or uncertainty identified by scrutiny partners.

Any further work on Best Value will be determined by the updated risk assessment and Assurance and Improvement Plan for 2010-11, due in April 2011.

4.3 Risk assessment and response

On the basis of our preliminary work to date, we have identified the audit risks outlined in section 4.4 in relation to the governance aspects of our audit:

4.4 Key performance issues

Issue	Response
<p>Assurance and Improvement Plan (AIP)</p> <p>The Council is required to achieve best value in its use of resources and to have effective arrangements in place to ensure it can demonstrate how it does this. Our recent audit found that the council is making good progress in implementing its best value improvement plan.</p>	<p>We will continue to work with other scrutiny partners through the Local Area Network (LAN) to update the AIP which sets out a shared risk assessment of the council's arrangements for achieving best value. The LAN will issue its revised AIP by 1 April 2011.</p>
<p>The AIP, issued in June 2010, assessed the council as low risk overall but highlighted workforce management and management of the schools estate as areas of higher risk.</p>	
<p>Schools Estate Strategy</p> <p>In recent years our work has drawn the Council's attention to the relatively poor occupancy rates in the Council's schools and the significant backlog of maintenance in the schools estate (estimated at £25 million). The Council has responded with an undertaking to review its school estate and develop a strategic plan for addressing key areas of concern. The Council intends to bring forward options to address issues relevant to the school estate in the near future.</p>	<p>As part of the Council's Assurance and Improvement Plan (agreed with all scrutiny agencies), we will monitor the Council's progress in implementing this key policy commitment as part of our 2010-11 performance audit work.</p>

Single Outcome Agreement

Single Outcome Agreements (SOAs) are still a relatively new mechanism for aligning public sector activity to national priorities and the Accounts Commission has no immediate plans to audit their delivery. However, the SRA and BV2 processes draw upon evidence contained within SOAs in order to consider outcomes more widely, as planning for and managing the delivery of outcomes should be central to all aspects of the council's activity.

Successful delivery of SOAs depends on the degree to which they are supported by effective planning, budgeting and performance management arrangements at service-level, within councils and across partner agencies.

In view of the significance of the SOA, during 2010-11, we will review the Council's approach to developing governance and accountability arrangements to support SOAs. In particular, we will review how effectively the council links high-level SOA outcomes and more detailed service-level outcomes, outputs and activities, both within the council and across community planning partners. The SOA should be supported by robust performance management and reporting arrangements, which include the role of the Audit Committee.

As part of our work on Statutory Performance Indicators, we will also review the Council's approach to public performance reporting on progress towards achieving SOA objectives.

Statutory Performance Indicators (SPIs)

The SPI direction for 2010-11 continues to incorporate two main requirements:

- that councils report a range of sufficient information to demonstrate best value in relation to corporate management (SPI 1); and
- that councils report a range of information sufficient to demonstrate best value in relation to service performance (SPI 2).

In reporting against SPIs 1 and 2, the Council will be required to report performance against 25 indicators specifically defined by the Accounts Commission.

The Council has also taken the opportunity to develop and report on locally determined indicators that reflect how the Council is performing as a whole.

We will review the Council's arrangements for meeting SPI reporting requirements. Specifically, we will consider whether the range of performance information reported locally is sufficient to demonstrate whether the Council is achieving Best Value. We will also consider whether arrangements are in place to ensure the reliability and accuracy of the information to be reported.

Improving public sector purchasing

In March 2006, the Scottish Executive published the Review of Public Procurement in Scotland by John McClelland. The report

We will follow up the Council's progress in implementing Audit Scotland's recommendations. In particular, we will look at what

estimated that £740 million savings over the three years to 2008/09 could have been made if public bodies significantly improved how they purchased goods and service. The report made a range of recommendations aimed at raising purchasing standards and making savings while also maintaining high quality services.

action has been taken in response to the Audit Scotland report, and others, and assess what difference this has made to the Council.

In July 2009, Audit Scotland produced a report on the implementation of the Public Procurement Reform Programme, which the Scottish Executive launched in response to the McClelland Report. Improving public sector purchasing notes that there was no systematic basis for reporting procurement savings. There were also wide variations across public bodies in the quality of purchasing data and practice. Best Practice Indicators (BPIs) were not in use across all public bodies.

Impact of National Performance Audit Reports

As part of the development of joint scrutiny and shared risk assessments, Audit Scotland's national audit work will increasingly be informed by local risk assessments, with future studies programmes being more responsive to information and intelligence generated through local audit work. To maximise the impact of the national audit work programme, we are required to follow up national reports affecting the Council 3 and 12 months following publication.

We will review the progress that the Council has made in implementing recommendations from national reports. Where necessary, we will report on any weaknesses in our final audit report.

5 Grants

5.1 Introduction

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 currently are:

- housing and council tax benefit subsidy
- education maintenance allowances
- criminal justice social work services grant
- non-domestic rates.

5.2 Overall approach

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.

In order to gain sufficient assurance to support our opinion on each grant claim, we are required to carry out reviews of:

- the council's arrangements for the preparation of each claim submitted for audit
- internal audit to determine the extent of reliance we can place on it for the purposes of our audit
- the effectiveness of the internal control framework for key financial systems relevant to each grant claim
- the materiality of balances and transactions impacting on each grant claim
- the key risks relevant to the preparation and audit of each grant claim.

Any additional grant claims submitted for audit will be audited in agreement with Audit Scotland and subject to additional fee arrangements in negotiation with the council.

6 Logistics

6.1 Timetables and milestones

In accordance with the schedule in Appendix A, the following proposed timetable and deadlines have been set:

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

Audit Area	Fieldwork Timetable
Planning	January/February 2011
Interim Audit <ul style="list-style-type: none"> • Financial Systems • Governance 	March 2011
International Financial Reporting Standards <ul style="list-style-type: none"> • Review of the IFRS Shadow Accounts 	March 2011
Performance <ul style="list-style-type: none"> • Area Improvement Plan • Statutory Performance Indicators 	April/May 2011
Financial Statements Audit	July/August 2011
Whole of Government Accounts	August 2011
Education Maintenance Allowance Grant	July 2011
Housing Benefit and Council Tax Benefit Subsidy Audit	August/September 2011
Non Domestic Rates Audit	January 2012

6.2 Fees

Our fees are 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.

In recognition of the significant financial challenge facing local authorities, we are proposing a decrease in our 2010-11 audit fee of £3,000 (1.5%) on the 2009-10 fee level. Our fee level has been set to reflect the efficiencies gained from the 5th year of our audit appointment, offset by the additional work required to audit the Council's move to IFRS compliant accounts.

In addition, the fixed charge has been reduced by £12,700 (13.5%), giving a proposed audit fee for the year of £286,500, a reduction of £15,700 (5%) on the 2009-10 levels.

	Current period £	Prior period actual fees £	% Change
Indicative Fee	201,400	197,900	1.8%
Grant Thornton UK LLP fee	205,000	208,000	(1.5%)
Audit Scotland Fixed Charge	81,500	94,200	(13.5%)
Total	286,500	302,200	(5.2%)

We have proposed this fee on the basis that:

- IFRS restated 2009-10 accounts are presented to us by 31st March 2011 for our review
- draft statutory accounts are presented to us by 30th June 2011 for audit, subject only to routine audit adjustments
- supporting schedules for all figures in the accounts are supplied by the agreed dates
- a trial balance together with reconciled control accounts are presented to us by 4th July 2011
- your staff are available to help us locate information and to provide explanations
- all deadlines agreed with us are met.

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

6.3 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
Gary Devlin	Engagement Partner	T: 0131 659 8554 E: gary.devlin@uk.gt.com
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The core audit team will call on other specialist and support staff, as necessary, during the course of the audit.

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, our National Head of Government Audit Services (sarah.howard@uk.gt.com , 0113 200 2530).

7 The small print

Engagement terms

The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of Argyll and Bute Council for the year ended 31st March 2011.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

Ethical standards

We have implemented policies and procedures to meet the requirements of the Code of Audit Practice and Auditing Practices Board's Ethical Standards.

Roles and responsibilities

In planning our work, we 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.

As Section 95 Officer, the Head of Strategic Finance is responsible for the preparation of the financial statements which show a true and fair view of the council's affairs and for making available to us all the information and explanations we consider necessary.

The Head of Strategic Finance is also responsible for putting proper arrangements in place to ensure that public business is conducted in accordance with the law and proper standards, public money is safeguarded and properly accounted for, and ensuring that economy, efficiency, effectiveness and Best Value are achieved in use of resources.

Communication of adverse or unexpected findings

We will communicate any adverse or unexpected findings affecting the audit on a timely basis with those charged with governance, currently the Council and the Scrutiny Committee.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with management and documented for the Scrutiny Committee's consideration.

Audit quality assurance

Grant Thornton's government audit practice is currently monitored by Audit Scotland. We also comply with Grant Thornton's internal quality standards and the firm is inspected by the Audit Inspection Unit, an arm of the Financial Reporting Council which has responsibility for monitoring the firm's public interest audit engagements. The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW. Grant Thornton UK LLP also conducts internal quality reviews of engagements.

We would be happy to discuss further the firm's approach to quality assurance.

Independence and robustness

To maintain our independence as auditors we ensure that:

- Grant Thornton, its partners and the audit

team have no family, financial, employment, investment or business relationship with the Council.

- any non-audit fees do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

Audit and non-audit services

In accordance with best practice, we analyse our fees below:

2009-10 Audit Fees	£
	incl VAT
Grant Thornton UK LLP	208,000
Audit Scotland fixed charge	94,200
	302,200

We have not charged any non-audit fees during the year

Communication with those charged with Governance

Communication with those charged with governance

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

is an essential element of the audit. We will discuss with management and the Scrutiny Committee the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising.

A Key Outputs and Deadlines

Audit Reports	To be issued to M anagem ent	M anagem ent response	Presented to Audit Com m ittee
Audit Planning			
Audit Approach M em orandum	11th February 2011	18 February 2011	M arch 2011
Financial Statem ents			
Report on the IFRS 2009-10 Restated Accounts	29 April 2011	13 M ay 2011	June 2011
Report on 2010-11 financial statem ents audit (ISA 260)	22nd August 2011	29th August 2011	Septem ber 2011
Governance			
Interim M anagem ent Report	27th M ay 2011	10th June 2011	June 2011
Overall Audit			
Final Report to M em bers and Accounts Com m ission for Scotland	7th O ctober 2011	28th O ctober 2011	D ecem ber 2011
Other Outputs			
	To be issued		
Perform ance audit			
Response to national studies	August 2011		
Assurance and Im provem ent Plan	1st April 2011		
Im proving Public Sector Purchasing Follow Up Report	30th August 2011		
Grant claim audits			
Non Dom estic Rates Incom e Return	25th February 2011		
Education M aintenance allow ance	31st July 2011		
Crim inal Justice Social W ork grant	30th Septem ber 2011		
H ousing benefit and council tax benefit	30th Novem ber 2011		

B Internal Audit

Introduction

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.

