



ARGYLL AND BUTE COUNCIL

Annual Audit Plan 2014/15

Prepared for ARGYLL AND BUTE COUNCIL

FEBRUARY 2015



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

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Key contacts

Fiona Mitchell-Knight, Assistant Director
fmitchell-knight@audit-scotland.gov.uk

David Jamieson, Senior Audit Manager
djamieson@audit-scotland.gov.uk

Russell Smith, Senior Auditor
rsmith@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place
Glasgow
G2 1BT

Switchboard: 0131 625 1500

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Argyll and Bute Council's financial statements.
2. This report summarises the key challenges and risks facing Argyll and Bute Council and sets out the audit work that we propose to undertake in 2014/15. Our plan reflects:
 - the risks and priorities facing Argyll and Bute Council
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.
3. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local

authority is the sole trustee. Argyll and Bute Council has 11 trusts having charitable status with total assets of £5.883 million. Accordingly, we will perform the audit of the council's charitable trusts in parallel with the audit of the council's financial statements.

Summary of planned audit activity

4. Our planned work in 2014/15 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of Argyll and Bute Council as at 31 March 2015 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2014 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
- reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's(LAN's) assessment since last year.
- a review and assessment of Argyll and Bute Council's governance and performance arrangements in a number of key areas including: review of adequacy of internal audit, ICT governance arrangements and the Annual Governance Statement.
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- reporting of National Fraud Initiative arrangements and results
- review of local impact of national studies as required
- responding to third party correspondence relating to the council's activities, received by Audit Scotland.

Responsibilities

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

Responsibility of the appointed auditor

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

Responsibility of the Head of Strategic Finance

8. It is the responsibility of the Head of Strategic Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of

Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of Argyll and Bute Council as at 31 March 2015 and its expenditure and income for the year then ended.

Format of the accounts

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

Audit Approach

Our approach

10. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Argyll and Bute Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Argyll and Bute Council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Argyll and Bute Council will include these in the financial statements
 - assessing the results of audit work carried out in response to correspondence received by Audit Scotland from the public
 - assessing and addressing the risk of material misstatement in the financial statements
11. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2014/15 includes:
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2014/15.
12. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we

carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the council. Overall, we concluded that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. We identified a small number of areas where the service has not yet achieved full compliance with the new standards. However, we concluded that the areas where internal audit is working towards full compliance with PSIAS do not impact on the range and quality of work carried out.

13. We plan to place formal reliance on aspects of the work of internal audit in the following areas, to support our audit opinion on the financial statements:
 - General Ledger
 - Trade Receivables
 - Trade Payables
 - Payroll
 - Treasury Management
 - Capital Accounting
14. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:
 - Statutory Performance Indicators

- Procurement
- Health and social care integration governance arrangements
- Self directed support
- Performance management arrangements

15. Quarterly meetings will be held with the Chief Internal Auditor to discuss respective audit plans and work. The first of these was held on 24 February 2015.

Audit approach to correspondence received from the public

16. Audit Scotland's website explains that members of the public can write to Audit Scotland to raise issues that they have in relation to council's. These are considered by the Controller of Audit's team. Correspondents should in the first instance seek a response to these issues directly from the appropriate council. The correspondence is then passed onto the local auditors where it is felt to be of relevance to the scope of the audit.
17. As local auditors we then consider an appropriate response. The scope of response can vary from consideration as part of our existing work to a separate investigation. We receive a large amount of correspondence to consider relating to Argyll and Bute Council.

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18. If the correspondence requires extra audit work we will discuss this in the first instance with the Head of Strategic Finance and /or the Chief Executive depending on its nature. We will also inform the Chief Internal Auditor.
 19. The outputs from this work depend on the nature of our findings. We will consider whether a separate audit report or management letter is required and also include a summary in our annual audit report. The Audit Committee will be informed where it is identified that audit work is leading to a report/ management letter. All audit reports are presented to the Audit Committee for consideration by members.
 20. By its nature we cannot anticipate the issues that will be raised by correspondents in this plan. However the audit work which is ongoing currently is:
 - follow up of issues reported in 2013/14 relating to the disposal of properties, including Castle Toward
 - the process for considering external funding requests arising from our report on the Scottish Submarine Museum
 - the governance arrangements for the CHORD programme
 - a review of the commissioning process undertaken by the Argyll and Bute Alcohol and Drugs Partnership.

Materiality

21. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
22. Based on our knowledge and understanding of Argyll and Bute Council we have set our planning materiality at 1% of gross expenditure. For 2014/15 planning materiality is £3.037 million.
23. We set a lower level, known as performance materiality, when defining our audit procedures. This is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. This level depends on professional judgement and is informed by a number of factors including:
 - extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.

For 2014/15 performance materiality has been set at £1.822 million. We consider the cumulative impact of errors in relation to the materiality set on the financial statements in forming our audit opinion. We will report, to those charged with governance, all misstatements identified in the financial statements which are greater than £30,000.

24. In addition, an inaccuracy which would not normally be regarded as material in terms of monetary value may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

25. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
26. The regulations require a local authority to give public notice on its website by 17 June of the right to inspect its annual accounts. The inspection period should last for 15 working

days from the date specified in the notice, and the specified date should be at least 14 days after the notice is published but cannot be later than 1 July. These inspection requirements apply also to registered charities administered by the authority.

27. The 2014 regulations require the local authority (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
28. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The local authority is also required to publish a copy of the accounts of its subsidiaries. The annual audit report is required to be published on the website by 31 December.
29. An timetable agreed with the previous Head of Strategic Finance is included at Exhibit 1 below which takes account of submission requirements and planned Audit Committee dates:

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	February to June 2015
Meetings with officers to clarify expectations of working papers and financial system reports	Ongoing
Planned committee approval of unaudited financial statements	25 June 2015
Submission of unaudited council financial statements with working papers package	30 June 2015
Submission of unaudited charitable trust financial statements with working papers package	30 June 2015
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with Head of Strategic Finance	11 September 2015
Agreement of unsigned financial statements for Audit Committee agenda, and issue of combined ISA 260 report to those charged with governance and Annual Audit Report.	18 September 2015
Audit Committee date	25 September

Key stage	Date
	2015
Independent auditors report signed	By 30 September 2015
Latest date for submission of unaudited whole of government accounts to external audit	28 August 2015
Latest date for signing of WGA return	3 October 2015

30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. In most instances our reports are addressed to the Head of Strategic Finance.
31. We have agreed with the Head of Strategic Finance that responses to draft reports are to be provided within four weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Head of Strategic Finance, relevant senior manager, the Chief Internal Auditor and Audit Scotland's Performance Audit and Best Value Group.
32. We will provide an independent auditor's report to Argyll and Bute Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. As part of streamlining our audit approach, this year the Annual Audit Report will be combined with the International Standard of Auditing (ISA) 260

report. As a result, the Annual Audit Report will be issued by 30 September which is one month earlier than in previous years.

- 33. All annual audit reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).
- 34. Planned outputs for 2014/15 are summarised at Appendix I. All of our outputs detailed in the appendix, are presented to the Audit Committee for consideration.

Quality control

- 35. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

- 36. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Fiona Mitchell-Knight.

Independence and objectivity

- 37. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.
- 38. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Argyll and Bute Council.

Audit issues and risks

Audit issues and risks

39. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main risk areas for Argyll and Bute Council. We have differentiated risks between those related to the financial statements risks and those related to the wider dimension audit. The financial statements risks, which require specific audit testing, are summarised at Appendix II.

Financial statement audit issues and risks

40. **Income:** Auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. Argyll and Bute Council receives a significant amount of funding from the Scottish Government, however £141 million is received from other sources, including service income, Council Tax and Non Domestic Rates. The complexity of income means there is an inherent risk that income could be materially misstated. It is our opinion that the Council has strong mitigating controls in

place to reduce this risk. To reinforce this view, we will be undertaking revenue transaction testing across all areas.

41. **Management override of controls:** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. ISA 240 states that audit procedures should be responsive to risks related to management override of controls. We will design and perform audit procedures to address these risks within Argyll and Bute Council.
42. **Equal pay provision:** The current provision for equal pay is £0.4 million, however, there is still the potential for this to be significantly understated as the legal position resolves. We will continue to monitor developments throughout the year and review the equal pay provision as part of the 2014/15 financial statements audit process.
43. **Group Accounts:** The Code of Practice for Local Authority Accounting has been amended to reflect the adoption of the following group accounts standards
- IFRS 10 Consolidated financial statements
 - IFRS 11 Joint arrangements
 - IFRS 12 Disclosure of interests in other entities
 - IAS 28 Investments in associates and joint ventures (as amended).

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44. The Council should ensure they carry out a reassessment of the group boundary to ensure there are no further consolidations and disclosures. We will discuss the work completed with management to ensure any impact on the Council is reflected in the financial statements.
45. **2014 Regulations:** The Local Authority Accounts (Scotland) Regulations 2014 have been issued to replace the 1985 regulations in respect of local authority annual accounts with effect from 2014/15.
46. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Audit Committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Audit Committee by 30 September with publication on the council's website by 31 October. We will confirm with management that arrangements are in place to comply with the revised regulations from 2014/15.
47. **Provisions:** This is an area of significant estimation based on management judgements. There are potentially areas in 2014/15, such as non contractual holiday pay claims, where it is not yet possible to give a definitive view on the likely outcome for the council. We will meet with officers to discuss the latest position on all provisions, and ensure this is accurately reflected in the financial statements.
48. **Preparation of accounts:** The Head of Strategic Finance recently left the council. This loss of intellectual capital is being managed by the council. The post has been filled on an interim basis. The permanent post has been advertised and will be filled.
49. **Castle Toward:** In the Annual Report on the 2013/14 Audit published in October 2014, we said that we will continue to monitor the sale of this property.
50. At its meeting of 18 December 2014, the Policy and Resources Committee agreed to dispose of the Castle Toward Estate to the South Cowal Community Development Company (SCCDC) at the full value of £1.75 million with £1 million in respect of the purchase price being provided to SCCDC on a commercial loan basis subject to an initial three year period of deferment of repayments in recognition of their financial position. This loan was to be subject to a range of conditions.
51. The committee also agreed to extend the Right to Buy period with SCCDC until 31 January 2015 to allow officers to negotiate with SCCDC. A further extension was granted by officers to 13 February 2015.

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52. The current position is that at a special meeting on 12 February 2015, the Council: withdrew the delegation to officers in regard to any further negotiations with SCCDC; withdrew the delegation for any further extension in the Right to Buy deadline; and reaffirmed the delegation to the Executive Directors of Community and Customer Services to market the property.
53. Our view is that it was for the Council to decide on whether to accept or reject a purchase proposal for Castle Toward from SCCDC. In making this decision it is appropriate that the elected members considered a range of factors including the details of the proposal, the District Valuer's valuation of the property, and the wider financial implications for the council of the proposal. We will report this conclusion and any further developments in the sale in our 2014/15 annual audit report.
54. **Prior year issues:** Our ISA260 report to those charged with governance on the 2013/14 audit and our annual report on the 2013/14 audit identified a number of findings from our 2013/14 work which require to be addressed during 2014/15. Excluding those matters referred to above, these findings include accounting for landfill sites and heritage assets. Follow up work will be carried out to monitor progress with these issues as part of the audit of the financial statements.

Wider Dimension audit issues and risks

55. We will monitor a range of other wider risks in the council as part of our audit and report progress in our annual audit report.
56. **Best Value statutory report follow up:** Follow-up audit work reviewed progress made by the council over the six-month period between the publication of the statutory report at the end of October 2013 and April 2014. The follow-up audit report was considered by the Accounts Commission at its meeting on 19 June 2014. The Commission accepted the Controller of Audit's report and noted that it is encouraged the council is making progress against its previous findings of October 2013. The Commission also agreed that it is too early to assess the effectiveness of actions and plans being implemented and concluded that there is still much work to be done by the council to secure the improvements that were required in October 2013.
57. The Commission therefore requires the Controller of Audit to report on progress by the end of 2015, with particular focus upon the effectiveness of the following: political management arrangements, scrutiny and roles and relationships, including between members and officers. Further follow up work will be carried out to review progress made in addressing the report findings.
58. **Financial Sustainability:** The continuing difficult economic climate affects all Local Authorities. Reductions in funding and

increased demand for services places increased pressure on the need to identify, and achieve efficiency savings. In our Annual Report on the 2013/14 Audit published in October 2014, we said that the council estimated it will need to reduce expenditure over the period 2016/17 to 2019/20 by an average of around three per cent or £8 million per annum, building up to £28.565 million in 2019/20. This equates to approximately £77 million in total over the four-year period.

59. The Council has now set out a revised forecast of its financial position which estimates that by 2020/21 expenditure is estimated to exceed income by between £27.5 million and £37.5 million. Averaged over the 5 years 2016/17 to 2020/21 this equates to an annual gap in the range £5.5- £7.5 million.
60. The council recognise that achieving these savings will require transformational change in the way the council operates. Fundamental decisions will need to be made by councillors about future service provision and delivery. We will continue to monitor and report on the council's management of its resources.
61. **Health and Social Care Integration:** The statutory implementation date for the integration of health and social care is April 2016. However, it is planned that from 1 April 2015 all NHS services in Argyll and Bute (planning, delivery and commissioned services), and Adult and Children and Families Social Work Services of Argyll and Bute Council will deliver a

single, integrated service. In December 2014 the Council approved the draft Integration Scheme which has been submitted to the Scottish Government for approval. Integration will be complex and challenging to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.

62. The council's Local Scrutiny Plan reports that the Care Inspectorate and Healthcare Improvement Scotland plan to carry out a joint inspection of services for adults during 2015-16. The specific focus of the inspection will be on services for older people. This is part of the wider national programme of scrutiny work being undertaken by the Care Inspectorate and Healthcare Improvement Scotland and has not arisen through the LAN's shared risk assessment. The council's view is that due to its timing, this inspection increases the risks to the implementation timetable of the Health and Social Care arrangements in Argyll and Bute. We are concerned that this is the case and will monitor the council's mitigation of the impact of the inspection on the integration timetable.
63. **Infrastructure Assets:** Infrastructure assets are to be included in council financial statements, per the Code, at depreciated replacement cost, from 2016/17. Although not affecting the current audit year, management should already be preparing for this significant change in accounting requirements, and should be compiling, and assessing the reliability, of the necessary base information. This represents a change in

accounting policy so will require full restatement of 2015/16 figures and presentation of opening balance sheet amounts as at 1 April, 2015. Failure by authorities to begin preparations in 2014/15 represents a risk to them having the necessary information in the required timescale. We will report on the council's preparation for these changes.

- 64. Argyll and Bute Alcohol and Drugs Partnership (ADP):** In November 2014, the Council commissioned a contract on behalf of the ADP, with Addaction Scotland to provide community based care and support for people affected by addictions. . Concerns have been expressed in relation to various aspects of the procurement of the contract and in January 2015, the Controller of Audit confirmed that Audit Scotland will undertake a specific piece of work to review the commissioning process undertaken by the ADP. We will report our findings when this work is completed.
- 65. CHORD Project:** In November 2008, the Council agreed a programme to assist regeneration and economic development in five of its waterfront towns - Campbeltown, Helensburgh, Oban, Rothesay and Dunoon and to allocate more than £30 million to the programme (CHORD). In 2013/14, due to the profile of the CHORD project in the community and receipt of correspondence from members of the public, we carried out some targeted audit work reviewing the council's governance over the Helensburgh CHORD project. We reported that the council acknowledged that project governance arrangements

needed to be improved and that the project had not progressed as planned. We also reported that the council is to continue to review the effectiveness of its revised arrangements over similar projects.

- 66.** Follow up work will be carried out to monitor progress with these issues with particular focus on the Oban Bay/Harbour project. A separate audit report may be prepared on any new or emerging issues.

Summary assurance plan

- 67.** The financial statements risks are summarised at Appendix II. In terms of financial statements risks, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix II. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

National performance audit studies - impact and follow up

- 68.** Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit

process and to maximise the impact of national performance audits we will review arrangements for considering and reviewing national studies published during the year.

Fees and resources

Audit fee

69. Over the past four years, Audit Scotland has reduced audit fees by 23.5% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to restrict the increase in audit fees for 2014/15 to 1% which, in real terms, represents a 0.6% reduction at 2014 price levels.
70. In determining the audit fee we have taken account of the risk exposure of Argyll and Bute Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2015.
71. The agreed audit fee for the 2014/15 audit of Argyll and Bute Council is £284,580 (£266,680 in 2013/14). This includes £3,300 in respect of the separate audits required for the council's charitable trusts, referred to in para 3 above.

72. The fee has been discussed in correspondence with the Head of Strategic Finance. Our fee covers:
- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees and reporting on issues arising from correspondence
 - ongoing Best Value follow up work
 - your organisation's allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative),
 - the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.
73. The increase over 2013/14 relates to the level of local follow up work required as part of our 2014/15 audit in response to the latest statutory report and the level of correspondence issues from the public, that we are required to consider as part of our work. This is at a level significantly above the norm for councils of this size. Whilst the fee increased in 2013/14 to reflect similar issues, the increase was insufficient to cover the substantial amount of audit work involved in these areas. This additional work increased the number of days spent on the audit by more than 15% and required substantial input of

senior team members. The level of audit work required continues to increase at the council.

74. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

75. Fiona Mitchell-Knight, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by David Jamieson who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

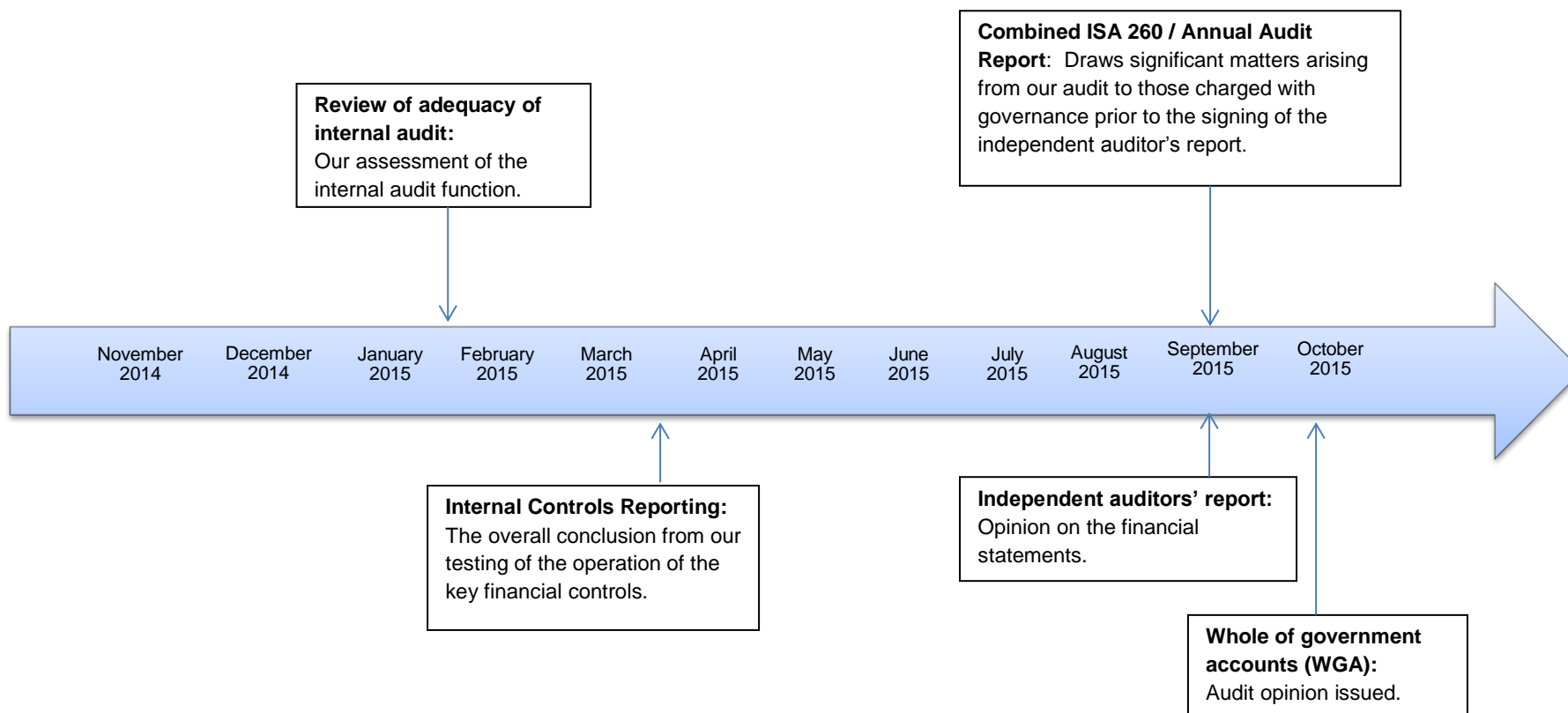
Name	Experience
Fiona Mitchell-Knight BA (Hons) FCA Assistant Director of Audit Services (certifying auditor)	Fiona took up post as Assistant Director of Audit in August 2007. Fiona trained as an auditor in the private sector in England. She has over 20 years experience of public sector audit with Audit Scotland, covering local government, health and the

Name	Experience
	further education sectors.
David Jamieson CPFA Senior Audit Manager	David has over twenty years experience of both internal and external audit from a wide range of public sector clients including the NHS, local and central government.
Russell Smith BAcc CA Senior Auditor	Russell has fourteen years experience of public sector audit with Audit Scotland, covering local and central government. Russell previously worked in external audit in the private sector and in the international audit department of a multi national company.
Stephanie Harold BA (Hons), MSc Auditor	Stephanie is an Economics graduate from Strathclyde University. She has 3 years experience in public sector audit working within the local government and health sectors. She recently passed her final ICAS examinations.
Brian Gillespie DPA (CIPFA) Auditor	Brian joined Audit Scotland in 2002 and has a wide range of external audit experience in the health, specifically the audit of NHS Greater Glasgow and Clyde, and local government sectors. Prior to this, Brian spent eight years as an internal auditor in the NHS.

Name	Experience
Fiona Ivison BA (Hons) Professional Trainee	Fiona is an accountancy graduate from Glasgow Caledonian University with a first class honours degree. She joined Audit Scotland in 2013 and is studying for her ICAS qualification.

Appendix I: Planned audit outputs

The diagram below shows the key outputs planned for Argyll and Bute Council in 2014/15.



Appendix II: Significant financial statement audit risks

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

Audit Risk	Source of assurance	Assurance procedure
<i>Audit risk of material misstatement in financial statements</i>		
<p>Income</p> <p>Argyll and Bute Council receives a significant amount of income in addition to SG funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Sound controls arrangements have been reported in previous years of the audit. • Internal audit reviews. 	<ul style="list-style-type: none"> • Detailed testing of revenue transactions across each service area. • Testing of significant Grants received. • Focused testing of the Council Tax and NDR Income Accounts.

Audit Risk	Source of assurance	Assurance procedure
<p>Management override of controls</p> <p>As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • A sound system of budgetary control, including regular budget monitoring. • Regular updates of Standing Orders and Financial Regulations, which require approval by the Full Council. 	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business. • Focussed testing of the regularity and cut-off assertions during the financial statements audit.
<p>Equal Pay Provision</p> <p>The potential liability resulting from equal pay claims remains uncertain and is subject to the outcome of several national test legal cases. There is a risk that the ultimate cost to the council is significantly different from that provided in the financial statements.</p>	<ul style="list-style-type: none"> • Officers, in consultation with the council's legal service, will review the evidence available at the time of preparing the financial statements, in relation to legal decisions, to review the adequacy of the provision and ensure that it is valued appropriately. 	<ul style="list-style-type: none"> • We will continue to monitor developments throughout the year and review the equal pay provision as part of the 2014/15 financial statements audit process.

Audit Risk	Source of assurance	Assurance procedure
<p>Group Accounts</p> <p>There may be changes to the group structure arising from amendments to The Code of Practice for Local Authority Accounting, reflecting the adoption of the following group accounts standards;</p> <ul style="list-style-type: none"> • IFRS 10 Consolidated financial statements • IFRS 11 Joint arrangements • IFRS 12 Disclosure of interests in other entities • IAS 28 Investments in associates and joint ventures (as amended). <p>There is a risk that the council and its group are not properly presented in the financial statements.</p>	<ul style="list-style-type: none"> • Management assurance that appropriate arrangements have been made for assessing the impact of group account standards, and reflecting any changes within the Group financial statements • Staff knowledge and experience • Clear responsibility for managing and preparing the unaudited financial statements. 	<ul style="list-style-type: none"> • We will continue to liaise with officers during the course of the year regarding the group accounts arrangements. • During our audit of the council's financial statements we will ensure group account disclosures meet with our understanding of the new accounting standards.

Audit Risk	Source of assurance	Assurance procedure
<p>2014 Regulations</p> <p>The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. There is a risk that the council does not comply with the requirements of the revised regulations.</p>	<ul style="list-style-type: none"> • Management assurance that appropriate arrangements have been made to comply with the revised regulations from 2014/15 • Staff knowledge and experience • Clear responsibility for managing and preparing the unaudited financial statements. 	<ul style="list-style-type: none"> • We will liaise with officers during the course of the year to ensure that arrangements remain in place to comply with the revised regulations from 2014/15. • During our audit of the council's financial statements we will ensure that all requirements relating to the revised regulations are achieved.
<p>Provisions: This is an area of significant estimation based on management judgements. There are potentially areas in 2014/15, such as non-contractual holiday pay claims, where it is not yet possible to give a definitive view on the likely outcome for the council.</p>	<ul style="list-style-type: none"> • Officers review provisions as part of the financial statements preparation process in consultation with their legal service. 	<ul style="list-style-type: none"> • We will review all provisions with senior council officers and review for appropriateness and accuracy based on the information available. • We will continue to monitor any technical guidance in this area.