Annual Audit Plan

Argyll and Bute Council – Year ending 31 March 2025

forv/s mazars

Audit and Scrutiny Committee

Argyll and Bute Council

Lochgilphead

Argyll

PA31 8RT

19th May 2025

Forvis Mazars

The Corner, Bank Chambers

26 Mosley Street
Newcastle upon Tyne
NE1 1DF

Dear Audit and Scrutiny Committee members,

Annual Audit Plan – Year ending 31 March 2025

We are pleased to present our Annual Audit Plan for Argyll and Bute Council for the year ending 31 March 2025. This report summarises our audit approach, including the significant audit risks and areas of key judgement we have identified, and provides details of our audit team. In addition, as it is a fundamental requirement that an auditor is, and is seen to be, independent of an audited entity, the section of the report titled '*Confirmation of our independence*' summarises our considerations and conclusions on our independence as auditors.

Two-way communication with you is key to a successful audit and is important in:

- Reaching a mutual understanding of the scope of the audit and our respective responsibilities;
- Sharing information to assist each of us to fulfil our respective responsibilities;
- Providing you with constructive observations arising during the audit process; and
- Ensuring that we, as external auditors, gain an understanding of your attitude and views in respect of the internal and external operational, financial, compliance, and other risks facing Argyll and Bute Council which may affect the audit, including the likelihood of those risks materialising and how they are monitored and managed.

With that in mind, this report, which has been prepared following our initial planning discussions with management, facilitates a discussion with you on our audit approach. We welcome any questions, concerns, or input you may have on our approach or role as auditor.

Annual Audit Plan – Year ending 31 March 2025 (continued)

This report also contains appendices that outline our key communications with you during the audit, and forthcoming accounting issues and other issues that may be of interest to you. Providing a high-quality service is extremely important to us and we strive to provide technical excellence with the highest level of service quality, together with continuous improvement to exceed your expectations. If you have any concerns or comments about this report or our audit approach, please contact me.

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code") and for the sole benefit of the Audit and Scrutiny Committee. Except where required by law or regulation, it should not be used, quoted or made available to any other parties without our prior written consent.

Yours faithfully,

Mark Outterside (Director)

Forvis Mazars

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Engagement and responsibilities summary

Engagement and responsibilities summary

We are appointed to perform the external audit of Argyll and Bute Council for the year to 31 March 2025. The scope of our engagement is set out in the Code of Audit Practice, issued by the Auditor General and the Accounts Commission available from the Audit Scotland website: [Code of audit practice | Audit Scotland (audit-scotland.gov.uk)](). Our responsibilities are principally derived from the Local Government (Scotland) Act 1973 (the 1973 Act) and the Code of Audit Practice, as outlined below and overleaf.

Audit opinion

We are responsible for forming and expressing an opinion on whether the financial statements are prepared, in all material respects, in accordance with applicable law and UK adopted International Accounting Standards as interpreted and adopted by the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

Our audit does not relieve management or Audit and Scrutiny Committee, as Those Charged With Governance, of their responsibilities.

The Section 95 Officer is responsible for the assessment of the Council's ability to continue as a going concern. As auditors, we are required to obtain sufficient, appropriate audit evidence regarding, and conclude on:

a) whether a material uncertainty related to going concern exists, and

b) the appropriateness of the Section 95 Officer's use of the going concern basis of accounting in the preparation of the financial statements.

Fraud

The responsibility for safeguarding assets and for the prevention and detection of fraud, error, and non-compliance with law or regulations rests with both those charged with governance, and management. This includes establishing and maintaining internal controls over asset protection, compliance with relevant laws and regulations, and the reliability of financial reporting.

As part of our audit procedures in relation to fraud, we are required to inquire of those charged with governance, including key management and internal audit on their knowledge of instances of fraud, and their views on the risks of fraud and on internal controls that mitigate those risks. In accordance with International Standards on Auditing (UK), we plan and perform our audit to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether due to fraud or error. However, our audit should not be relied upon to identify all such misstatements.

Engagement and responsibilities summary (continued)

Internal control

Management is responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

We are responsible for obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.

Wider scope and Best Value

We are also responsible for reviewing and reporting on the wider scope arrangements that the Council has in place and its arrangements to secure Best Value. We discuss our approach to wider scope and Best Value work further in the *'Wider scope and Best Value'* section of this report.

Wider reporting

We report to the National Audit Office on the consistency of the Council's financial statements with its Whole of Government Accounts (WGA) submission. The level of auditor assurance required depends on monetary thresholds set by HM Treasury.

02

Your audit engagement team

Your audit team

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We will consider utilising internal experts/specialists on this engagement in the following areas:

1. The valuation of property, plant and equipment
2. The migration of payroll data to a new system

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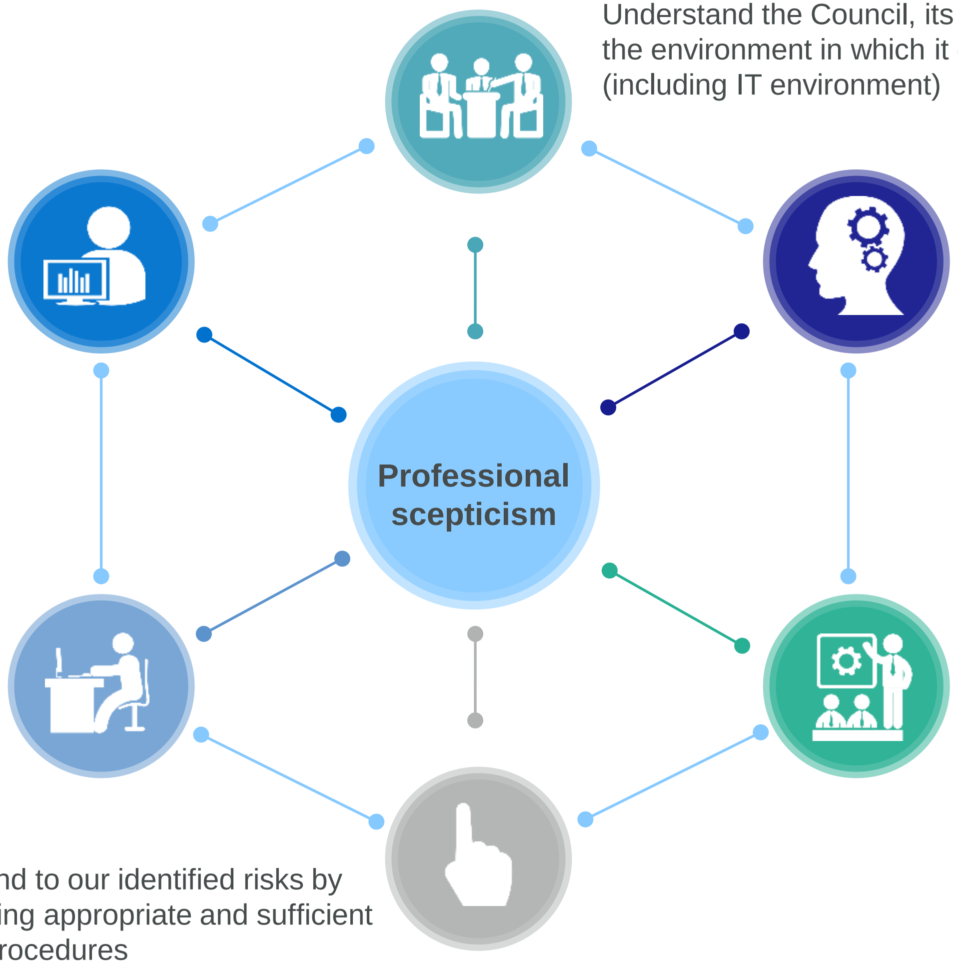
Audit scope, approach, and timeline

Audit scope, approach, and timeline

Risk-based approach



Understand the Council, its business, and the environment in which it operates (including IT environment)

Plan our audit, including determining materiality and identifying significant components

Perform our risk assessment to identify risks of material misstatement, including significant risks

Respond to our identified risks by designing appropriate and sufficient audit procedures

Perform planned procedures and evaluate findings and, where necessary, review the appropriateness and sufficiency of the scope of our audit

Form our audit conclusion based on our audit findings

Audit scope, approach, and timeline (continued)

Audit scope

Our audit approach is designed to provide an audit that complies with all professional requirements.

Our audit of the financial statements will be conducted in accordance with International Standards on Auditing (UK), relevant ethical and professional standards, our own audit methodology, and in accordance with the terms of our engagement. Our work is focused on those aspects of your business which we consider to have a higher risk of material misstatement, such as those impacted by management judgement and estimation, application of new accounting standards, changes of accounting policy, changes to operations, or areas found to contain material errors in the past.

Audit approach

Our audit approach is risk-based, and the nature, extent, and timing of our audit procedures are primarily driven by the areas of the financial statements we consider to be more susceptible to material misstatement. Following our risk assessment where we assess the inherent risk factors (subjectivity, complexity, uncertainty, change and susceptibility to misstatement due to management bias or fraud) to aid in our risk assessment, we develop our audit strategy and design audit procedures to respond to the risks we have identified.

If we conclude that appropriately designed controls are in place, we may plan to test and rely on those controls. If we decide controls are not appropriately designed, or we decide that it would be more efficient to do so, we may take a wholly substantive approach to our audit testing where, in our professional judgement, substantive procedures alone will provide sufficient appropriate audit evidence. Substantive procedures are audit procedures designed to detect material misstatements at the assertion level and comprise tests of detail (of classes of transaction, account balances, and disclosures), and substantive analytical procedures. Irrespective of our assessed risks of material misstatement, which takes account of our evaluation of the operating effectiveness of controls, we are required to design and perform substantive procedures for each material class of transaction, account balance, and disclosure.

Our audit has been planned and will be performed to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. The concept of materiality and how we define a misstatement is explained in the *'Materiality and misstatements'* section of this report.

The diagram on the next page outlines the procedures we perform at the different stages of our audit. We have also provided, later in this report, a table setting out the procedures we perform for the significant financial statement areas.

Audit scope, approach, and timeline

Planning and risk assessment March to April 2025	Interim May 2025	Fieldwork July to September 2025	Completion October 2025
• Planning our visit and developing our understanding of the entity • Documenting systems and control and performing walkthroughs • Risk identification and assessment • Considering proposed accounting policies and accounting treatments • Developing our audit strategy and planning the audit work to be performed • Agreeing timetable and deadlines • Preliminary analytical review • Determination of materiality	• Documenting systems and controls • Performing walkthroughs • IT general controls testing • Reassessment of our audit strategy (and revising if necessary) • Early substantive testing of transactions	• Executing our strategy, starting with significant risks and other higher-risk areas • Use of data analytics • Receiving and reviewing the draft financial statements	• Final review of financial statements, and disclosure checklist • Final director review • Agreeing the content of the letter of representation • Preparing our auditor's report • Reporting to the Audit and Scrutiny committee • Subsequent events procedures • Signing our auditor's report

Audit scope, approach, and timeline (continued)

Key developments

The below key developments have taken place in the year. We have set out below how we will approach these areas during our audit.

Implementation of new payroll /HR system

- In August 2024, a new payroll/HR system was implemented (iTrent). The Council previously used ResourceLink.
- The change in system directly impacts our audit due to increased risk around migration of data, as staff costs are a significant balance within the accounts. We plan to test staff costs at enhanced risk (per the following page).

  We will engage an internal IT specialist to assess the migration process, and the design and implementation of iTrent.

First year application of IFRS 16

- The 2024/25 code introduced the mandatory application of IFRS 16 – Leases.
- It is expected that IFRS 16 will have a material impact on the accounts in 2024/25, as the Council will be required to recognise most of their operational leases on the balance sheet. IFRS 16 will also impact the three Public Private Partnership arrangements that the Council has.

  We plan to test leases/Public Private Partnership arrangements at enhanced risk (as set out on page 29 of this report).

Audit scope, approach, and timeline (continued)

Audit approach for significant financial statement areas

Our audit approach on significant financial statement areas is set out below.

Financial statement area	Significant risk	Key judgement area or enhanced risk	Testing of controls	Substantive procedures	Comments
Valuation of land and buildings	Yes	Yes	No	Yes	See ‘Section 05 – Significant risks and other key judgement areas’ for further detail.
Valuation of net defined pension liability/asset	Yes	Yes	No	No	See ‘Section 05 – Significant risks and other key judgement areas’ for further detail.
Accounting for leases under IFRS 16	No	Yes	No	No	See ‘Section 05 – Significant risks and other key judgement areas’ for further detail.
Accounting for Public Private Partnerships under IFRS 16	No	Yes	No	Yes	See ‘Section 05 – Significant risks and other key judgement areas’ for further detail.
Accounting for staff costs under a new payroll/HR system (iTrent)	No	Yes	No	No	See ‘Section 05 – Significant risks and other key judgement areas’ for further detail.

Audit scope, approach, and timeline (continued)

Group audit approach

The preliminary scope of our group audit is based on our analysis of the risks we have identified at group level. When scoping our audit, we have considered quantitative criteria (the contribution of each of the group's consolidated components to the group financial statements); qualitative criteria (the risks of material misstatement of the group financial statements that consolidated components may present individually at component level); and we have assessed the risk of material misstatement across the group's consolidated components in aggregate.

The nature and extent of audit work we plan to perform on the consolidated components is set out below.

Component name	Identifier	% Group Expenditure	Location	Auditor	Scope
Argyll and Bute Council	Parent – local authority	98.05%	Kilmory, Lochgilphead, Argyll, PA31 8RT	Forvis Mazars	Full
Argyll and Bute Integration Joint Board	Joint venture between the Council and NHS Highland with responsibility for health and social care functions.	0.00%	Campbeltown, PA28 6LE	Forvis Mazars	Specific
Dunbartonshire and Argyll and Bute Valuation Joint Board	Joint Board responsible for the maintenance of the electoral, council tax and non-domestic rates registers for Argyll and Bute, West Dunbartonshire and East Dunbartonshire Councils.	0.28%	Kilbrannan House, Bolgam St, Campbeltown, PA28 6JY	Forvis Mazars	N/A
Live Argyll	100% owned subsidiary of the Council, which provides a wide range of services within the area including libraries, leisure facilities, halls, sports development and community centres.	1.67%	Campbeltown Aqualibrium. Kinloch Road, Campbeltown, Argyll, PA28 6EG	Forvis Mazars	Specific
Common Good accounts	The Council administers the Common Good Accounts for several former Burghs.	0.00%	Kilmory, Lochgilphead, Argyll, PA31 8RT	Forvis Mazars	N/A

Audit scope, approach, and timeline (continued)

Follow up on deficiencies in internal control

Set out below are the significant deficiencies in internal control that we identified during our prior period audit. We request that you and management provide an update on the action taken to address these deficiencies.

- We noted that there is scope for the Council to improve their property, plant and equipment valuation reconciliations, as there were instances where we struggled to agree details to underlying records. We recommended that management prepare and maintain a reconciliation of the results of any revaluation exercises conducted with the fixed asset register/general ledger and maintain summaries that agree back to supporting records (such as maps or architects' plans).
- During our testing of property, plant and equipment valuations, we noted the asset records and floor areas held on the Concerto system were inconsistent with area inputs used in the valuer calculations. We recommended management ensure there are clear controls and processes in place to ensure that information on Concerto is kept accurate and up to date.
- The Council administers numerous bank accounts, several of which were dormant during the period. It was not clear whether these accounts are actively monitored. We recommended that a review of open bank accounts should be carried out periodically to identify dormant accounts. Any accounts which are no longer required should be closed.
- Related Parties testing identified one officer who was disclosed in the Senior Councillor Remuneration note in the accounts, but not on the Council's website. We recommended that management perform a regular exercise to ensure there is consistency between the two.
- During our testing of debtors, when considering the application of the Code/IFRS 9 Financial Instruments, we noted the Council had not done a detailed assessment of the expected credit loss for 2023/24. We recommended that the Council ensure they perform an expected credit loss calculation which includes sufficient detail.

Audit scope, approach, and timeline (continued)

Audit of trusts registered as Scottish charities

The Charities Accounts (Scotland) Regulations 2006 outline the accounting and auditing requirements for charitable bodies. The 2006 Regulations require charities to prepare annual accounts and an auditor to prepare a report to the charity trustees where any legislation requires an audit.

The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a Council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees.

Members of the Council are the sole trustees for 7 trusts registered as Scottish charities, with total assets of circa £800,000. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

We have not identified any significant risks, other than the risk of management override of controls which we have also identified as a risk for the Council's annual accounts, for the financial statements of the Council's charitable trusts. Please see page 22 for disclosure of our planning materiality level.

04

Materiality and misstatements

Materiality and misstatements

Definitions

Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole.

Misstatements in the financial statements are considered to be material if they could, individually or in aggregate, reasonably be expected to influence the economic decisions of users based on the financial statements.

Materiality

We determine materiality for the financial statements as a whole (overall materiality) using a benchmark that, in our professional judgement, is most appropriate to the entity. We also determine an amount less than materiality (performance materiality), which is applied when we carry out our audit procedures and is designed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Further, we set a threshold above which all misstatements we identify during our audit (adjusted and unadjusted) will be reported to the Audit and Scrutiny Committee.

Judgements on materiality are made in light of surrounding circumstances and are affected by the size and nature of a misstatement, or a combination of both. Judgements about materiality are based on a consideration of the common financial information needs of users as a group and not on specific individual users.

An assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- Have a reasonable knowledge of business, economic activities, and accounts;
- Have a willingness to study the information in the financial statements with reasonable diligence;
- Understand that financial statements are prepared, presented, and audited to levels of materiality;
- Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement, and consideration of future events; and
- Will make reasonable economic decisions based on the information in the financial statements.

We consider overall materiality and performance materiality while planning and performing our audit based on quantitative and qualitative factors.

When planning our audit, we make judgements about the size of misstatements we consider to be material. This provides a basis for our risk assessment procedures, including identifying and assessing the risks of material misstatement, and determining the nature, timing and extent of our responses to those risks.

The overall materiality and performance materiality that we determine does not necessarily mean that uncorrected misstatements that are below materiality, individually or in aggregate, will be considered immaterial.

We revise materiality as our audit progresses should we become aware of information that would have caused us to determine a different amount had we been aware of that information at the planning stage.

Materiality and misstatements (continued)

Materiality (continued)

For the consolidated and single-entity Council financial statements, we consider that gross revenue expenditure at surplus/deficit level is the key focus of users of the financial statements. We have therefore determined our initial materiality levels using this as the benchmark.

We expect to set a materiality of 2% of gross revenue expenditure at surplus/deficit level for the consolidated financial statements, and a materiality of 2% of gross revenue at surplus/deficit level for the single-entity.

As set out in the tables alongside, based on currently available information (being the prior period signed financial statements), we anticipate overall group materiality for the year ended 31 March 2025 to be in the region of £9.810m (£9.810m in the prior year), and performance materiality to be in the region of £7.358m (£6.867m in the prior year).

For the single-entity, we anticipate overall materiality for the year ended 31 March 2025 to be in the region of £9.697m (£9.697m in the prior year), and performance materiality to be in the region of £7.273m (£6.788m in the prior year).

As set out in the tables overleaf, for the Argyll and Bute Charitable Trusts, we anticipate overall materiality for the year ended 31 March 2025 to be in the region of £16,318 (£16,318 in the prior year), and performance materiality to be in the region of £9,791 (£9,791 in the prior year).

We have selected gross revenue expenditure at surplus/deficit on provision of services level as the benchmark for our materiality calculation. This is because the users of the financial statements primarily focus on expenditure in the year and the implications of this on the funding position of the authority.

We will continue to monitor materiality throughout our audit to ensure it is set at an appropriate level.

Group financial statements

	2024/25 £'000s	2023/24 £'000s
Overall materiality	£9,810	£9,810
Performance materiality	£7,358	£6,867
Clearly trivial	£294	£294
Specific materiality: Remuneration Report	£1 for senior councillors and senior employees' remuneration and pensions benefits. 1 banding for Employees' remuneration. 1 banding for exit packages.	

Council's single-entity financial statements

	2024/25 £'000s	2023/24 £'000s
Overall materiality	£9,697	£9,697
Performance materiality	£7,273	£6,788
Clearly trivial	£291	£291
Specific materiality: Remuneration Report	£1 for senior councillors and senior employees' remuneration and pensions benefits 1 banding for Employees' remuneration. 1 banding for exit packages.	

Materiality and misstatements (continued)

Materiality (continued)

Argyll and Bute Charitable Trust

	2024/25 (TBC) £	2023/24 £
Overall materiality	£16,318	£16,318
Performance materiality	£9,791	£9,791
Clearly trivial	£490	£490

Materiality and misstatements (continued)

Misstatements

We will accumulate misstatements identified during our audit that are above our determined clearly trivial threshold.

We have set a clearly trivial threshold for individual misstatements we identify (a reporting threshold) for reporting to the Audit and Scrutiny Committee and management that is consistent with a threshold where misstatements below that amount would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements.

Based on our preliminary assessment of overall materiality, our proposed clearly trivial threshold is £294k for the Group and £291k for the Council, based on 3% of overall materiality. If you have any queries about this, please raise these with Mark Outterside.

Each misstatement above the reporting threshold that we identify will be classified as:

- **Adjusted:** Those misstatements that we identify and are corrected by management.
- **Unadjusted:** Those misstatements that we identify that are not corrected by management.

We will report all misstatements above the reporting threshold to management and request that they are corrected. If they are not corrected, we will report each misstatement to the Audit and Scrutiny Committee as unadjusted misstatements and, if they remain uncorrected, we will communicate the effect that they may have individually, or in aggregate, on the financial statements and on our audit opinion.

Misstatements also cover qualitative misstatements and include quantitative and qualitative misstatements and omissions relating to the notes of the financial statements.

Reporting

In summary, we will categorise and report misstatements above the reporting threshold to the Audit and Scrutiny Committee as follows:

- Adjusted misstatements;
- Unadjusted misstatements; and
- Disclosure misstatements (adjusted and unadjusted).

05

Significant risks and other key judgement areas

Significant risks and other key judgement areas

Definitions

Following the risk assessment approach set out in the *'Audit scope, approach, and timeline'* section, we have identified the risks of material misstatement in the financial statements. These risks are categorised as significant, enhanced, or standard. The definitions of these risk ratings are set out below.

Risk Level	Definition
Significant	A risk that is assessed as being at or close to the upper end of the spectrum of inherent risk, based on a combination of the likelihood of a misstatement occurring and the magnitude of any potential misstatement. A fraud risk is always assessed as a significant risk (as required by auditing standards), including management override of controls and revenue recognition.
Enhanced	An area with an elevated risk of material misstatement at the assertion level, other than a significant risk, based on factors/ information inherent to that area. Enhanced risks require additional consideration but do not rise to the level of a significant risk. These include but are not limited to: • Key areas of management judgement and estimation uncertainty, including accounting estimates related to material classes of transaction, account balances, and disclosures but which are not considered to give rise to a significant risk of material misstatement; and • Risks relating to other assertions and arising from significant events or transactions that occurred during the period.
Standard	A risk related to assertions over classes of transaction, account balances, and disclosures that are relatively routine, non-complex, tend to be subject to systematic processing, and require little or no management judgement/ estimation. Although it is considered that there is a risk of material misstatement, there are no elevated or special factors related to the nature of the financial statement area, the likely magnitude of potential misstatements, or the likelihood of a risk occurring.

Significant risks and other key judgement areas (continued)

Audit risks and planned responses

In this section, we have set out the risks that we deem to be significant and enhanced, and our planned response. An audit is a dynamic process, and should we change our view of risk and/ or our approach to address those risks during our audit, we will report this to the Audit and Scrutiny Committee.

Significant risks

	Risk name	Fraud	Error	Judgement	Risk description	Planned response
1	**Management override of controls**	Yes	No	Yes	Management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits. You should assess this risk as part of your oversight of the financial reporting process.	We plan to address the management override of controls risk through performing audit work over accounting estimates, journal entries and significant transactions outside the normal course of business or otherwise unusual. We will address the risk through performing audit procedures covering a range of areas including (but not limited to): • accounting estimates included in the financial statements for evidence of management bias; • any significant transactions outside the normal course of business; and • journals and other adjustments recorded in the general ledger in preparing the financial statements.

Significant risks and other key judgement areas (continued)

Significant risks (continued)

	Risk name	Fraud	Error	Judgement	Risk description	Planned response
2	**Valuation of the net defined benefit (liability)/surplus**	No	Yes	Yes	As at 31 March 2024, the net defined benefit liability was £19.6m. The pension asset was nil. This is due to the application of the asset ceiling applied in accordance with IAS 19. The valuation of the Council's net liabilities/assets includes use of discount rates, inflation rates, mortality rates etc., all of which should reflect the profile of the Council's employees and other appropriate data. Due to the high degree of estimation uncertainty associated with the valuations, we have determined there is a significant risk in this area.	We will address this risk by reviewing the controls that the Council has in place over the information sent to the Scheme Actuary by the fund administrators (Strathclyde Pension Fund). We will: • challenge the reasonableness of the Actuary's assumptions that underpin the relevant entries made in the financial statements; • critically assess the competency, objectivity and independence of the Actuary; • liaise with the auditors of the Pension Fund to gain assurance that the overall IAS19 procedures and controls in place at the Pension Fund are operating effectively; • compare assumptions to expected ranges; and • agree data in the Actuary's valuation report for accounting purposes to the relevant accounting entries and disclosures in the Council's financial statements.

Significant risks and other key judgement areas (continued)

Significant risks (continued)

	Risk name	Fraud	Error	Judgement	Risk description	Planned response
3	**Valuation of property, plant and equipment**	No	Yes	Yes	The Council held land and buildings (including council dwellings) with a net book value of £457 million at 31 March 2024. The Council has adopted a rolling revaluation model which sees other land and buildings revalued over a five-year cycle. This may result in individual assets not being revalued for up to 5 years. This creates a risk that the carrying value of those assets that have been revalued in year is materially different from the year end fair value. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations. Due to the high degree of estimation uncertainty associated with valuations, we have determined there is a significant risk in this area.	We will address this risk through: • assessing the scope and terms of engagement with the in-house Valuer; • assessing the competence, skills and objectivity of the in-house Valuer; • assessing how management use the in-house Valuer's report to value land and buildings included in the financial statements; • testing the accuracy of the data used in valuations; • challenging the Council and in-house Valuer's assumptions and judgements applied in the valuations; • reviewing the valuation methodology used, including the appropriateness of the valuation basis; • considering the reasonableness of the valuation by comparing the valuation output with market intelligence; • testing a sample of revaluations in the year, by agreeing the revaluations recorded in the Annual Accounts to the in-house valuer's reports. As part of this testing, we will check whether the movements have been accounted for in accordance with the Code; • challenging management's assessment for those assets not subject to valuation in the year; • for those valued on Existing Use Value on a market comparable basis, we will check market movements to assess the materiality of potential movement for 2024/25; and • for those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we will test management's analysis of changes in the Build Costs Information Service (BCIS) index and assess any decisions management make this regard. We will engage the Forvis Mazars Real Estate Valuation Team to assist us with the above.

Significant risks and other key judgement areas (continued)

Other key areas of management judgement and enhanced risks

	Risk name	Fraud	Error	Judgement	Risk description	Planned response
1	**Lease liabilities including PPP (Public Private Partnership) contracts**	No	Yes	Yes	Enhanced risk due to the implementation of a new accounting standard in 2024/25 (IFRS 16 Leases). The Council has the following PPP contracts: • Waste Management Public Private Partnership; • Schools Non-Profit Distributing Organisation (NPDO) Public Private Partnership; and • Schools Hub Design, Build, Finance and Maintain Contract (DBFM) Public Private Partnership. PPP liabilities as at 31 March 2024 totalled £122.38m. IFRS 16 changes the definition of a lease compared to IAS 17 and IFRIC 4. The Council will apply this definition to new leases only and will grandfather its assessments made under the old standards of whether existing contracts contain a lease. The new standard also applies to the Council's PPP arrangements from 1 April 2024. The Council has previously made disclosures in its financial statements; however, this is a complex area, hence we have assessed it as an enhanced risk.	We will: • critically review the accuracy and completeness of the Council's assessment and review the changes to the PPP models; • review the accounting treatment; • ensure the required disclosures have been made; and • seek other evidence as appropriate.

Significant risks and other key judgement areas (continued)

Other key areas of management judgement and enhanced risks

	Risk name	Fraud	Error	Judgement	Risk description	Planned response
2	**Accuracy and completeness of staff costs following change in payroll/HR system**	No	Yes	No	The Council have changed their payroll/HR system in-year (during August 2024), from ResourceLink to iTrent. There is a risk relating to data migration, as this involves a significant amount of payroll/HR data being migrated from one system to another, which increases risks in relation to accuracy and completeness of this data.	We will: • review the Council's arrangements for ensuring the iTrent system is accurate and complete; • review import/export files to ensure that these reconcile and are accurately recorded in the financial statements; • increase our sample size of staff costs by testing at enhanced risk; and • consider using an internal Forvis Mazars IT expert/specialist to assist with our work.

Significant risks and other key judgement areas (continued)

Other considerations

In consideration of ISA (UK) 260 *Communication with Those Charged with Governance*, we would like to seek the Audit and Scrutiny Committee's views/ knowledge of the following matters:

- Did you identify any other risks (business, laws & regulation, fraud, going concern etc.) that may result in material misstatements?
- Are you aware of any significant communications between the Council and regulators?
- Are there any matters that you consider warrant particular attention during the course of our audit, and any areas where you would like additional procedures to be undertaken?

Significant difficulties encountered during the course of audit

In accordance with ISA (UK) 260 *Communication with Those Charged with Governance*, we are required to communicate certain matters to you which include, but are not limited to, significant difficulties, if any, that are encountered during our audit. Such difficulties may include matters such as:

- Significant delays in management providing information that we require to perform our audit.
- An unnecessarily brief time within which to complete our audit.
- Extensive and unexpected effort to obtain sufficient appropriate audit evidence.
- Unavailability of expected information.
- Restrictions imposed on us by management.
- Unwillingness by management to make or extend their assessment of an entity's ability to continue as a going concern when requested.

We will highlight to you on a timely basis should we encounter any such difficulties (if our audit process is unduly impeded, this could require us to issue a modified auditor's report).

Internal audit function

Based on our assessment of the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether the internal audit function applies a systematic and disciplined approach, including quality control, we do not expect to use the work of the internal audit function for the purpose of our audit.

Nonetheless, we will obtain a copy of the reports issued by internal audit relating to the financial period under audit to determine whether any findings will have an impact on our risk assessment and planned audit procedures.

06

Wider scope and Best Value

Wider scope and Best Value

The framework for wider scope work

The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. We are required to form a view on the adequacy of the Council's arrangements in four areas:

1. **Financial management**
2. **Financial sustainability**
3. **Vision, leadership, and governance**
4. **Use of resources to improve outcomes**

Financial management	Financial management means having sound budgetary processes. Audited bodies require the ability to understand the financial environment and whether internal controls are operating effectively. Auditors consider whether the body has effective arrangements to secure sound financial management.
Financial sustainability	Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. Auditors consider the extent to which audited bodies have shown regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so that it can continue to deliver services.
Vision, leadership and governance	Audited bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation. Auditors consider the clarity of plans to implement the vision, strategy and priorities adopted by the leaders of the audited body. They also consider the effectiveness of governance arrangements for delivery.
Use of resources to improve outcomes	Audited bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. Auditors consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users taking account of equalities, and deliver continuous improvements in priority services.

Wider scope and Best Value (continued)

Our approach

Our planned audit work against the four wider scope areas is risk based and proportionate. We need to gather sufficient evidence to support our commentary on the Council's arrangements and to identify and report on any significant weaknesses. We will carry out more detailed work where we identify significant risks. Where significant weaknesses are identified we will report these to the Council and make recommendations for improvement. In addition to local risks, we consider challenges that are affecting the public sector generally.

Best Value

Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. We are required to consider the seven Best Value themes which are:

1. Vision and leadership
2. Governance and accountability
3. Effective use of resources
4. Partnerships and collaborative working
5. Working with communities
6. Sustainability
7. Fairness and equality

We are required to consider the Council's arrangements in respect of the seven Best Value themes, to identify any significant risks. Best Value at the Council will be assessed over the period of the audit appointment. Where we identify risks or improvement areas we will plan appropriate coverage over the period of the audit appointment on a risk basis.

We will also follow up previously reported Best Value findings to assess the pace and depth of improvement. This work will be integrated into our audit approach, including our work on the wider scope areas.

We will also conduct thematic reviews as directed by the Accounts Commission. In 2024/25 this will be on transformation. We will prepare a separate management report to document the findings of this work.

At least once every five years, the Controller of Audit will report to the Accounts Commission on the Council's performance in meeting its Best Value duties. The Council was included in the second year of the programme in 2023/24.

Wider scope and Best Value (continued)

Wider scope risks

The Code of Audit Practice requires us to consider the significant audit risks in areas defined in the Code as the wider scope audit.

Although we have not fully completed our planning and risk assessment work, the table below outlines the wider scope audit risks that we have identified to date. We will report any further identified risks to the Audit and Scrutiny Committee on completion of our planning and risk identification work.

	Risk Description	Financial management	Financial sustainability	Vision, leadership and governance	Use of resources to improve outcomes	Planned procedures
1	**Financial Sustainability** Before implementing measures to balance the budget, the 2025/26 budget gap stood at £10.938 million. The budget also highlights a gap of £9.528m in 2026/27 rising to a cumulative budget gap of £29.537m by the end of 2029/30 based upon a ‘mid-range’ scenario. The Council’s ‘worst case’ scenario highlights a potential £55.999m cumulative budget gap by the end of 2029/30. This represents a risk in relation to financial sustainability, impacting on the future provision of services in the Council’s area.	No	Yes	No	No	As part of our audit, we will review: • the Council’s medium to long term financial strategy; • financial position and track record in delivering planned recurrent and non-recurrent savings in 2024/25; • financial performance in 2025/26 and updates to its financial planning during the year, including the implications for general reserves balances; • regular reporting to Members on financial performance, savings plans and financial risks; and • progress in developing plans to address future years budget gaps.

Wider scope and Best Value (continued)

Wider scope risks (continued)

	Risk Description	Financial management	Financial sustainability	Vision, leadership and governance	Use of resources to improve outcomes	Planned procedures
2	**Corporate Plan** The Council's Strategic Plan 2023/2027, also known as the Corporate Plan, outlines the vision and key commitments for the Council. During the previous year's audit, we noted that the Strategic Plan and other key policy documents were being revised due to a change in administration, with an updated Strategy and other key policy documents scheduled for publication in March 2025. We therefore consider there to be a risk that these strategic documents may be inconsistent with other related policy documents, potentially impacting the clarity of the Council's vision and implementation of the administration's policies.	No	No	Yes	No	As part of our audit, we will consider: • the Council's progress in implementing its revised Corporate Plan and other key policy documents; • consider how the revised Corporate Plan maintains clarity of vision, and how changes are communicated to ensure effective implementation; and • how the Council ensures alignment between the Corporate Plan, other key policy documents, and key Council strategies (e.g., medium-term financial plan and corporate savings plan).

Wider scope and Best Value (continued)

Best Value risks

The Code of Audit Practice requires us to consider the significant audit risks in areas defined in the Code as the Best Value audit.

Although we have not fully completed our planning and risk assessment work, the table below outlines the best value audit risks that we have identified to date. We will report any further identified risks to the Audit and Scrutiny Committee on completion of our planning and risk identification work.

	Risk Description	Reporting Criteria	Planned procedures
1	**Performance management** In connection with the risk identified on page 36 of this report, we recommend that the Council ensure the revised Corporate Plan includes Key Performance Indicators (KPIs). These KPIs will help assess Council performance, addressing the risk that performance may not be effectively monitored.	Effectiveness of performance reporting	We plan to: • Understand how KPIs and performance metrics align with the Corporate Plan. • Review and assess the appropriateness of KPIs and other performance metrics. • Understand the Council's performance monitoring arrangements and how KPIs are utilised to improve performance and deliver the Corporate Plan.

Wider scope and Best Value (continued)

Best Value risks

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	Risk Description	Reporting Criteria	Planned procedures
2	**Corporate Improvement Plans** In 2023/24, we reported that the Council's Corporate Improvement Plan (CIP) concluded in 2022, and the Council intended to publish an updated CIP in 2024/25. Consequently, we identified a risk that the Council might not track progress in achieving its Connect for Success objectives. We therefore recommended that the Council updated its CIP to ensure alignment with other key strategies and plans, including its workforce plan.	Effectiveness of performance reporting	We plan to: • Review the updated Corporate Improvement Plan (CIP) and understand how it aligns with other key strategic issues/plans. • Understand the Council's arrangements to monitor and deliver the CIP.

Wider scope and Best Value (continued)

Best Value risks

	Risk Description	Reporting Criteria	Planned procedures
3	**Workforce Strategy** In 2023/24, we reported that the Council had implemented a new people strategy and strategic workforce plan, extending to 2028. In connection with the Wider Scope risk highlighted on page 36 of this report, we identified a risk that the Council's strategic workforce plans may not be aligned with the updated Corporate Plan and other key strategies, including the MTFP. There is a risk that workforce planning does not align with other strategic plans, including the MTFP.	Thematic Review	We plan to: • Review the Council's strategic workforce plan to understand its alignment with other strategic documents (e.g., MTFP, Corporate Plan, etc.). • Consider the key assumptions used in developing the workforce plan and evaluate the Council's arrangements for monitoring and updating the plan to ensure it remains current. • Update our understanding of how updates to the workforce strategy inform budget reporting and the MTFP.

Wider scope and Best Value (continued)

Best Value risks

	Risk Description	Reporting Criteria	Planned procedures
4	**Agency staff costs** In 2023/24, we reported that workforce trends outlined in the Strategic Workforce Planning Priorities indicated that temporary and casual staff increased to approximately 16% of the workforce. We therefore highlighted a risk that high turnover of staff and reliance on agency recruitment may result in increased costs and diminished service quality.	Thematic Review	We plan to: • Update our understanding of the Council's arrangements for monitoring and reporting the impact of high turnover and the use of agency staff on both financial and non-financial performance. • Update our understanding of the strategies and plans the Council has implemented to mitigate the risks associated with current turnover levels and the use of agency staff for critical services.

07

Audit fees and other services

Audit fees and other services

Our fees for the audit of the Council’s financial statements for the year ended 31 March 2025 are outlined below.

At this stage of the audit, we are not planning any divergence from the expected fees set by Audit Scotland, which is available on the Audit Scotland website:

Audit Scotland expected fees for 2024/25 audits.

Area of work	2024-25 Proposed Fee	2023-24 Actual Fee
Auditor remuneration	£262,260	£251,690
Pooled costs	£6,590	£9,170
Contribution to PABV costs	£60,940	£63,850
Sectoral cap adjustment	£1,010	-£110
Total fees	**£330,800**	**£324,600**

Fees for work as the Charitable Trust’s appointed auditor

We propose setting a fee for the audit of the Charitable Trusts of £9,750 (2023/24 fee was £9,000). We have not provided any non-audit services to the Charitable Trusts in 2024/25.

Services provided to other entities within the Council's group

In addition to auditing the Council’s Charitable Trusts, we are providing audit services to the following entities in the Council’s group:

- Argyll and Bute Integration Joint Board (total fee of £34,000)
- Dunbartonshire and Argyll & Bute Valuation Joint Board (total fee of £9,500)
- Live Argyll (fee TBC for 2024/25)

08

Confirmation of our independence

Confirmation of our independence

Requirements

We comply with the International Code of Ethics for Professional Accountants, including International Independence Standards issued by the International Ethics Standards Board for Accountants together with the ethical requirements that are relevant to our audit of the financial statements in the UK reflected in the ICAEW Code of Ethics and the FRC Revised Ethical Standard.

Compliance

We are not aware of any relationship between Forvis Mazars and Argyll and Bute Council that, in our professional judgement, may reasonably be thought to impair our independence.

We are independent of Argyll and Bute Council and have fulfilled our independence and ethical responsibilities in accordance with the requirements applicable to our audit.

Non-audit and Audit fees

We have set out a summary of the non-audit services provided by Forvis Mazars (with related fees) to Argyll and Bute Council in section 7, together with our audit fees and independence assessment.

We are committed to independence and confirm that we comply with the FRC's Revised Ethical Standard. In addition, we have set out in this section any matters or relationships we believe may have a bearing on our independence or the objectivity of our audit team.

Based on the information provided by you and our own internal procedures to safeguard our independence as auditors, we confirm that in our professional judgement there are no relationships between us and any of our related or subsidiary entities, and you and your related entities, that create any unacceptable threats to our independence within the regulatory or professional requirements governing us as your auditors.

We have policies and procedures in place that are designed to ensure that we carry out our work with integrity, objectivity, and independence. These policies include:

- All partners and staff are required to complete an annual independence declaration.
- All new partners and staff are required to complete an independence confirmation and complete annual ethical training.
- Rotation policies covering audit engagement partners and other key members of the audit team.
- Use by managers and partners of our client and engagement acceptance system, which requires all non-audit services to be approved in advance by the audit engagement partner.

We confirm, as at the date of this report, that the engagement team and others in the firm as appropriate, Forvis Mazars LLP are independent and comply with relevant ethical requirements. However, if at any time you have concerns or questions about our integrity, objectivity or independence, please discuss these with me in the first instance.

Confirmation of our independence

Prior to the provision of any non-audit services, Mark Outterside will undertake appropriate procedures to consider and fully assess the impact that providing the service may have on our independence as auditor.

Principal threats to our independence and the associated safeguards we have identified and/ or put in place are set out in Framework Agreement issued by Audit Scotland available from the Audit Scotland website: **[Audit Scotland Framework Agreement (audit-scotland.gov.uk)]**. Any emerging independence threats and associated identified safeguards will be communicated in our Annual Audit Report.

Any emerging independence threats and associated safeguards we identify or put in place will be communicated to you in our Annual Audit Report.

Appendices

A: Key communication points

B: Current year updates, forthcoming accounting and other issues

Appendix A: Key communication points

We value communication with you, as a two-way feedback process is at the heart of our client service commitment. ISA (UK) 260 Communication with Those Charged with Governance and ISA (UK) 265 Communicating Deficiencies In Internal Control To Those Charged With Governance And Management specifically require us to communicate a number of points with you.

Relevant points that need to be communicated with you at each stage of the audit are outlined below.

Form, timing and content of our communications

We will present the following reports:

- Our Annual Audit Plan;
- Our Annual Audit Report;
- Our independent auditor's report; and
- Our thematic report.

These documents will be discussed with management prior to being presented to yourselves and their comments will be incorporated as appropriate.

Key communication points at the planning stage as included in this Annual Audit Plan

Our responsibilities in relation to the audit of the financial statements;

- The planned scope and timing of the audit;
- Significant audit risks and areas of management judgement;
- Our commitment to independence;
- Responsibilities for preventing and detecting errors;
- Materiality and misstatements; and
- Fees for audit and other services.

Key communication points at the completion stage to be included in our Annual Audit Report

- Significant deficiencies in internal control;
- Significant findings from the audit;
- Significant matters discussed with management;
- Significant difficulties, if any, encountered during the audit;
- Qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- Our conclusions on the significant audit risks and areas of management judgement;
- Summary of misstatements;
- Management representation letter;
- Our proposed draft audit report; and
- Independence.

Appendix A: Key communication points

ISA (UK) 260 Communication with Those Charged with Governance, ISA (UK) 265 Communicating Deficiencies In Internal Control To Those Charged With Governance And Management and other ISAs (UK) specifically require us to communicate the following:

Required communication	Where addressed
Our responsibilities in relation to the financial statement audit and those of management and Those Charged with Governance.	Annual Audit Plan
The planned scope and timing of the audit including any limitations, specifically including with respect to significant risks.	Annual Audit Plan
With respect to misstatements: • Uncorrected misstatements and their effect on our audit opinion; • The effect of uncorrected misstatements related to prior periods; • A request that any uncorrected misstatement is corrected; and • In writing, corrected misstatements that are significant.	Annual Audit Report
With respect to fraud communications: • Inquiries of the Audit and Scrutiny Committee to determine whether you have knowledge of any actual, suspected, or alleged fraud affecting the entity; • Any fraud that we have identified or information we have obtained that indicates that fraud may exist; and • A discussion of any other matters related to fraud.	Annual Audit Report and discussion at the Audit and Scrutiny Committee Audit planning and clearance meetings
Where relevant, any issues identified with respect to authority to obtain external confirmations or inability to obtain relevant and reliable audit evidence from other procedures.	Annual Audit Report

Appendix A: Key communication points (continued)

Required communication	Where addressed
Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management; • Inappropriate authorisation and approval of transactions; • Disagreement over disclosures; • Non-compliance with laws and regulations; and • Difficulty in identifying the party that ultimately controls the entity.	Annual Audit Report
Significant findings from the audit including: • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures; • Significant difficulties, if any, encountered during the audit; • Significant matters, if any, arising from the audit that were discussed with management or were the subject of correspondence with management; • Written representations that we are seeking; • Expected modifications to the audit report; and • Other matters, if any, significant to the oversight of the financial reporting process or otherwise identified in the course of the audit that we believe will be relevant to the Council or the Audit and Scrutiny Committee in the context of fulfilling their responsibilities.	Annual Audit Report
Significant deficiencies in internal controls identified during the audit.	Annual Audit Report

Appendix A: Key communication points (continued)

Required communication	Where addressed
Audit findings regarding non-compliance with laws and regulations where the non-compliance is material and believed to be intentional (subject to compliance with legislation on tipping off)} and inquiry of the Audit and Scrutiny Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements that the Audit and Scrutiny Committee may be aware of.	Annual Audit Report and the Audit and Scrutiny Committee meetings
With respect to going concern, events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty; • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements; and • The adequacy of related disclosures in the financial statements.	Annual Audit Report
Communication regarding our system of quality management, compliant with ISQM (UK) 1, developed to support the consistent performance of quality audit engagements. To address the requirements of ISQM (UK) 1, our firm's System of Quality Management team completes, as part of an ongoing and iterative process, a number of key steps to assess and conclude on our firm's System of Quality Management: • Ensure there is an appropriate assignment of responsibilities under ISQM (UK) 1 and across Leadership • Establish and review quality objectives each year, ensuring ISQM (UK) 1 objectives align with the firm's strategies and priorities • Identify, review, and update quality risks each quarter, taking into consideration the number of input sources (such as FRC / ICAEW review findings, internal monitoring findings, findings from our firm's root cause analysis and remediation functions, etc.) • Identify, design, and implement responses as part of the process to strengthen our firm's internal control environment and overall quality • Evaluate responses and remediate control gaps or deficiencies We perform an evaluation of our system of quality management on an annual basis. Our first evaluation was performed as of 31 August 2023. Details of that assessment and our conclusion are set out in our 2022/2023 Transparency Report, which is available on our website **here**. The details of our evaluation of our system of quality management as of 31 August 2024, and our conclusion, will be available in our 2023/24 Transparency Report, which will be available on our website by 31 December 2024.	Annual Audit Plan

Appendix A: Key communication points (continued)

Required communication	Where addressed
An overview of the work to be performed at the components of the group and the nature of our involvement in the work to be performed by component auditors.	Annual Audit Plan and Annual Audit Report
Instances where our review of the work of the component auditor gave rise to a concern about the quality of the component auditor's work, and how we addressed that concern.	Annual Audit Report
Any limitations on the scope of the group audit, for example, significant matters related to restrictions on access to people or information.	Annual Audit Plan and Annual Audit Report, as necessary
Fraud or suspected fraud involving group management, component management, employees who have significant roles in the group's system of internal control or others when the fraud resulted in a material misstatement of the group financial statements.	Annual Audit Report and discussion at the Audit and Scrutiny Committee meetings, audit planning meetings, and audit clearance meetings

Current and forthcoming accounting issues

New standards and amendments

Effective for accounting periods beginning on or after 1 January 2023

IFRS 17 *Insurance Contracts* (issued May 2017) and Amendments to IFRS 17 *Insurance Contracts* (Issued June 2020)

- IFRS 17 *Insurance Contracts* (IFRS 17) is a new standard that will replace IFRS 4 *Insurance Contracts* (IFRS 4). The standard sets out the principles for the recognition, measurement, presentation and disclosure about insurance contracts issued, and reinsurance contracts held, by entities. The amendments, issued subsequently in June 2020, do not change the fundamental principles of IFRS 17 and are aimed at helping companies implement the standard and make it easier for them to explain their financial performance. The EU has endorsed the adoption of IFRS 17, although with some changes to the version issued by the IASB. In May 2022, the UK Endorsement Board (UKEB) adopted the standard and the associated amendments.

Amendments to IFRS 17 *Insurance Contracts*: Initial Application of IFRS 17 and IFRS 9 (Issued December 2021)

- The amendments address potential mismatches between the measurement of financial assets and insurance liabilities in the comparative period because of different transitional requirements in IFRS 9 *Financial Instruments* (IFRS 9) and IFRS 17. The amendments introduce a classification overlay under which a financial asset is permitted to be presented in the comparative period as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset in the comparative period. The classification overlay can be applied on an instrument-by-instrument basis. The amendments have been UK-adopted and endorsed by the EU.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements: Disclosure of Accounting Policies* (Issued February 2021)

- The amendments set out notable new requirements for accounting policy disclosures that change the requirements for entities to disclose material accounting policy information, rather than significant accounting policies, and not to disclose immaterial accounting policy information, explaining that accounting policy information taken in isolation is unlikely to be material, but it is when the information is considered together with other information in the financial statements that may make it material. Earlier application is permitted. The amendments have been UK-adopted and endorsed by the EU.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates* (Issued February 2021)

- The amendment introduces a new definition for accounting estimates and clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important because changes in accounting estimates are applied prospectively only to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events. Earlier application is permitted. The amendments have been UK-adopted and endorsed by the EU.

Appendix B: Current year updates, forthcoming accounting & other issues (continued)

Applicable for IFRS Reporters

Current and forthcoming accounting issues (continued)

New standards and amendments (continued)

Effective for accounting periods beginning on or after 1 January 2023

IFRS 18 *Presentation and Disclosure in Financial Statements* (Issued April 2024)

- IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18) is a new standard that replaces IAS 1 Presentation of Financial Statements. The new standard aims to increase the comparability, transparency and usefulness of information about companies' financial performance. It introduces three key new requirements focusing on the presentation of information in the statement of profit or loss and enhancing certain guidance on disclosures within the financial statements.

International Auditing Standard UK 600 Revised - Special considerations - Audits of group financial statements (Including the work of component auditors)

ISA UK 600 deals with the special considerations that apply to audits of group financial statements, including those circumstances when component auditors are involved. The auditing standard has been revised. The revised standard is effective for audits of group financial statements for periods beginning on or after 15 December 2023. The revisions made to ISA (UK) 600 impact how we perform audits of group financial statements, and how we communicate our audit strategy and audit findings arising from audits of group financial statements, going forward. This page sets out the key changes made to ISA (UK) 600 and how Forvis Mazars will apply the requirements of the revised standard in practice.

Key changes

The previous ISA (UK) 600 included prescriptive requirements in respect of the audit procedures required over ‘significant components’ of a group, i.e., a ‘full scope’ audit of a significant component’s financial information relevant to the group financial statements was required. Forvis Mazars defined a ‘significant component’ as one that contributed to the group financial statements more than 15% of the materiality benchmark selected to determine group materiality, e.g., if we had determined materiality using a profit before tax benchmark, any component that contributed more than 15% of the group’s reported profit before tax would be classified as a significant component and a ‘full scope’ audit would be performed over that component’s financial information.

ISA (UK) 600 Revised eliminates the 'significant component' concept, opting instead for consideration of risks of material misstatement at the assertion level of the group financial statements that are associated with components. This results in a group audit that is better focused on the risks of material misstatement of the group financial statements and affords greater flexibility in how we classify components and how we may design the nature and extent of audit procedures to be performed over a component’s financial information, i.e., we can determine the nature and extent of the audit procedures to be performed over a component’s financial information based on the specific risks relevant to the group financial statements.

ISA (UK) 600 also, however, removed the option to limit the procedures performed over a ‘non-significant’ component’s financial information to desktop analytical procedures. We are now required to perform substantive audit procedures (or a combination of substantive audit procedures and tests of controls) over the group financial statements, including the financial information relating to components in the group, until the residual, untested balances, classes of transaction and disclosures in the group financial statements are below our group materiality. This is to ensure that aggregation risk (the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole) is addressed appropriately.

In combination, these changes may result in a change to the nature and extent of the audit procedures we perform over the financial information of components on a group audit compared to previous years and may result in components that were not previously in scope of our group audit being brought into scope going forward to ensure that we address aggregation risk appropriately.

Appendix B: Current year updates, forthcoming accounting & other issues (continued)

International Auditing Standard UK 600 Revised - Special considerations - Audits of group financial statements (including the work of component auditors)

Key changes (continued)

To ensure consistency of approach, Forvis Mazars will apply the definitions set out below when performing audits of group financial statements going forward:

Key component	Material component	Non-material component
Any component: i. Which is greater or equal to 15% of the benchmark chosen for calculating group materiality (key by size); or ii. Where the specific nature or circumstance of its financial information make it likely to include significant risks of misstatement of the group financial statements (key by risk).	Any component, other than a key component, that contributes to one or more group financial statement areas an amount that is above group financial statement materiality.	A component, that is not a key component or a material component, that is scoped into a group audit to reduce the risk of material misstatement of the group financial statements to an acceptably low level (based on size or risk) in situations when, after assessing which components are key components and material components, the aggregate amount of a financial statement area related to un-scoped components is still above group financial statement materiality.

International Auditing Standard UK 600 Revised - Special considerations - Audits of group financial statements (including the work of component auditors)

Key changes (continued)

Definition of 'component' - The definition of 'component' has been revised to "an entity, business unit, function or business activity, or some combination thereof, determined by the group auditor for the purposes of planning and performing audit procedures in a group audit".

This provides clarity on how components may be identified in a group audit and may result in a change to how we identify components on a group audit compared to previous years. For example, we may group separate legal entities (e.g., subsidiaries) in a group based on common characteristics (such as common management, common information systems, and common geographical locations) and treat those components as a single component, when appropriate to do so.

Common controls - The definition of 'group-wide' controls has been removed and we are instead required to consider 'common controls', being controls that operate in a common manner for multiple entities or business units.

This may assist us in grouping separate legal entities, business units, functions, or business activities in a group into a single component for the purposes of a group audit; or it may result in us grouping specific account balances or classes of transaction recorded by individual legal entities, business units, functions, or business activities into a single population for the purposes of our audit procedures.

For audits where we are adopting a controls-based audit strategy, this may result in efficiencies, as we can rely on a single control for the purposes of the audits of more than one component where that control is common to those components.

Definition of 'engagement team' - The definition of 'engagement team' has been revised to include component auditors. While this change may seem inconsequential, it forms part of the overall changes intended by ISA (UK) 600 Revised to enhance two-way communication between the group auditor and component auditors during a group audit. This will result in enhanced direction and supervision of component auditors by the group auditor during a group audit.

Calculation of component materiality - The requirement to set overall materiality for a component has been removed. We are now only required to determine component performance materiality.

Other changes - ISA (UK) 600 Revised includes new and revised requirements and application material that better aligns the standard with recently revised standards such as ISQM (UK) 1, ISA (UK) 220, and ISA (UK) 315. The new and revised requirements also strengthen our responsibilities related to professional scepticism, planning and performing a group audit, two-way communications between the group auditor and component auditors, and audit documentation. These changes are to encourage proactive management of quality at the group engagement level and the component level; reinforce the need for robust communication and interactions during a group audit; and foster an appropriately independent and challenging sceptical mindset.

Scope of audit work to be performed over a component's financial information - Forvis Mazars will, going forward, determine the scope of work to be performed over a component's financial information on a group audit using the definitions set out below:

Full scope	Specific scope	Group Engagement Team Instructed Procedures
Designing and performing audit procedures on the entire financial information of a component.	Designing and performing audit procedures on one or more specified account balances, classes of transaction, and/ or disclosures of a component.	Performing specified audit procedures, as designed and instructed by the group engagement team.

Contact

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