

Comhairle nan Eilean Siar

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Comhairle nan Eilean Siar
March 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value

3. We aim to add value to the Comhairle nan Eilean Siar through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Comhairle promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks


4. 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 Comhairle nan Eilean Siar. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</p> <p>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. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Use of data analytics to:</p> <ul style="list-style-type: none"> • Carry out detailed testing of journal entries • Focus testing of accruals and prepayments. • Evaluate significant transactions that are outside the normal course of business. • Review and assessment of accounting estimates.
<p>2 Risk of fraud over income</p> <p>The Comhairle receives a significant amount of income from several sources including Scottish Government funding, taxation receipts and income from fees and charges.</p>	<p>All key financial systems are reviewed over the lifespan of the Strategic Audit Plan, including Council Tax, NDR,</p>	<ul style="list-style-type: none"> • Review of key controls within the financial systems including the debtors and cash and bank systems • Analytical procedures on income streams.

 Audit Risk	Source of assurance	Planned audit work
<p>The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Debtors and Income Management System.</p>	<ul style="list-style-type: none"> • Detailed testing of revenue transactions focusing on the areas of greatest risk. • Walkthrough testing of care income assessment process.
<p>3 Risk of fraud over expenditure</p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. The Comhairle incurs significant expenditure in areas such as service provision, welfare benefits and grant funding and therefore there is an inherent risk of fraud.</p>	<p>Procedures in Creditors revised to address risks.</p> <p>NFI arrangements</p>	<ul style="list-style-type: none"> • Review of key controls within the financial systems including creditors and payroll systems • Detailed substantive testing of expenditure including staff costs, welfare payments and grants awarded
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of fixed assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Timescale for the delivery of the IAS19 Report has been agreed with the Pensions Section at Highland Council. The report will include Fund valuations as at 31 March 2019. This will not impact on the completion of the accounts, in line with the planned timetable.</p> <p>There is a new process in place for estimating income from residential care charges, which has improved the data available.</p> <p>A detailed review of the main provisions is undertaken each year.</p>	<ul style="list-style-type: none"> • Assessment of the scope, independence and competence of the professionals engaged in providing estimates. • Review appropriateness of actuarial results including comparison with other councils. • Assessment of the appropriateness of the actuarial assumptions. • Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end. • Review actual experience of significant estimates made at previous year end. • Review officers' assessment of other significant accruals and provisions at the year end.
<p>5 An Lanntair investment</p> <p>In 2005, the Comhairle invested £0.423 million in a building which cost over £4 million for a 20% pro indiviso share of the property. The accounting treatment has been consistent since 2005. The share is classified as an investment. The investment is valued at historic cost and is "depreciated" over 30 years.</p> <p>We believe that this treatment may be incorrect, as the Accounting Code of Practice identifies that if a property is held for development purposes then it should be classified as Property, Plant</p>	<p>Awaiting advice from auditors on the preferred treatment. However, it is unlikely that a change in treatment will have a material impact on the Balance Sheet.</p>	<ul style="list-style-type: none"> • Review of the nature of the ownership including whether this is contingent on future events • Consideration of the appropriateness and basis of valuation. • Review of classification and disclosures associated with this transaction.

 Audit Risk	Source of assurance	Planned audit work
<p>and Equipment and should be subject to periodic revaluation. However, the ownership may be contingent on a future event.</p> <p>There is a risk that the rights to the asset, valuation and classification are incorrect in the financial statements.</p>		
Wider dimension issues and risks		
<p>6 Financial sustainability</p> <p>Councils are continuing to face significant financial challenges through funding pressures and an increased demand for services.</p> <p>In February 2019 a budget for 2019/20 was set that included delivering £2.5m of savings through service redesign and the use of £2.4m of balance, earmarked to support the budget. The Comhairle has so far realised £0.8m of service redesign savings</p> <p>As reported in the Third Quarter Revenue Monitoring 2018/19 report, earmarked balances to support the budget are projected to decrease from over £4.4m to around £2.0m by the end of 2019/20.</p> <p>The financial projections set out in the 2019/20 budget papers indicate that, provided service redesign savings are achieved, balances will further reduce to £1m by the end of 2021/22</p> <p>Reliance on reserves to bridge budget gaps is unsustainable in the longer term. There is a risk that the Comhairle is unable to achieve the necessary sustainable savings measures through service redesign and other measures or meet cost pressures as they arise to sustain a prudent level of reserves.</p>	<p>The Comhairle's 2019/20 budget builds on the budget strategy agreed in 2018/19.</p> <p>The Comhairle has established a Transformation team to manage change across the Comhairle.</p> <p>Regular reports will continue to be presented through the Budget Board and Comhairle, Committees.</p>	<ul style="list-style-type: none"> • Review budget monitoring reports and the financial position at the year end. • Undertake audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non-recurring savings. • Monitor planned use of reserves against actual. • Review of assumptions included within the financial plan.
<p>7 Cyber security arrangements</p> <p>The Comhairle considers that existing cyber defence measures are generally effective and in 2017/18 internal audit identified examples of good practice. However, the Comhairle has elected not to proceed with an application for Cyber Essentials accreditation and have engaged in discussions with the Scottish Government to determine how further improvements can be</p>	<p>The Comhairle achieved Cyber Essential Plus certification in November 2018.</p>	<ul style="list-style-type: none"> • Review outcome of discussions between the Comhairle and the Scottish Government and the agreed actions to support cyber resilience • Assess appropriateness of arrangements through comparison with other local authorities • Review business continuity arrangements.

 Audit Risk	Source of assurance	Planned audit work
<p>made.</p> <p>In our 2017/18 Annual Audit report we noted these on-going discussions and proposed to conduct a follow-up review during 2018/19.</p>		
<p>8 EU Withdrawal</p> <p>There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses.</p> <p>There is a risk that the council is not prepared for the impact of EU withdrawal on the delivery of services.</p>	<p>The Comhairle has established a Brexit Officer group and is working with other key agencies to prepare for Brexit</p>	<ul style="list-style-type: none"> • Assess how the council has assessed and prepared for EU withdrawal, including workforce implications and dependency on key suppliers. • Consider how the council responds to any emerging issues after March 2019.
<p>9 Dependency on key suppliers</p> <p>Dependency on a key supplier could expose the Comhairle to service delivery issues should the supplier fail. Where a significant supplier dependency exists, there should be monitoring and business continuity arrangements to ensure the Comhairle is able to respond to significant issues.</p> <p>There is a risk that the Comhairle is unable to deliver services if it is not aware of its key supplier dependencies and / or fails to have sufficient business continuity arrangements in place.</p>	<p>The Comhairle's has business continuity plans in place.</p>	<ul style="list-style-type: none"> • Undertake work to establish the extent, value and nature of key supplier dependencies, including considering the Comhairle's work planning for EU withdrawal. • Where issues are identified consider the robustness of the business monitoring and continuity arrangements in place.

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. 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 relevant officer(s) to confirm factual accuracy.

7. We will provide an independent auditor's report to Comhairle nan Eilean Siar and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of the Comhairle and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Audit & Scrutiny Date
Interim Management Report	14 June 2019	25 June 2019
Annual Audit Report	6 September 2019	23 September 2019
Independent Auditor's Report	6 September 2019	23 September 2019

Source: Audit Scotland

Audit fee

8. The proposed audit fee for the 2018/19 audit of Comhairle nan Eilean Siar is £198,490 (2017/18 - £194,550). In determining the audit fee, we have taken account of the risk exposure of the Comhairle, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package by 30 June 2019.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 out with our planned audit activity.

Responsibilities

Audit & Scrutiny Committee and Chief Executive

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the annual accounts does not relieve management or the Audit & Scrutiny Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

14. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Comhairle and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Comhairle will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on whether the financial statements

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the of the state of affairs of the Comhairle and its group as at 31 March 2019 and of the income and expenditure of the Comhairle and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual accounts

16. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated materiality values for the Comhairle are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts.	£1.7 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£0.85 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount. This has been calculated as 4% of planning materiality and rounded to a memorable numeric.	£75,000

Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	25 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2019
Latest date for final clearance meeting with Director of Finance, Assets & Resources	6 September 2019
Issue of Letter of Representation and proposed independent auditor's report	September 2019
Agreement of audited unsigned annual accounts	September 2019
Issue of Annual Audit Report to those charged with governance	September 2019
Independent auditor's report signed	September 2019
Latest date for signing of WGA return	28 September 2019

Internal audit

21. Internal audit is provided by a team of staff managed by the Chief Internal Auditor. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). The scope of our work assesses aspects of PSIAS compliance, but it does not equate to full EQA review of internal audit. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- 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
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

22. Our assessment of the internal audit function concluded that it complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

23. 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 to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

24. From our initial review of internal audit plans we plan to place formal reliance on aspects of internal audit work in the following areas:

- Treasury Management (financial systems review)
- Debtors (financial systems review)
- Council Tax and Associated Systems (financial systems review)

25. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Organisational Change and Corporate Improvement (probity and regularity audit)
- Local Outcomes (probity and regularity audit)

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

27. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

Financial sustainability

28. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the Comhairle can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Comhairle has arrangements in place to ensure systems of internal control are operating effectively
- whether the Comhairle can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the Comhairle has assured itself that its financial capacity and skills are appropriate
- whether the Comhairle has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

30. Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Comhairle can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the Comhairle can provide evidence that it is demonstrating value for money in the use of its resources
- the Comhairle can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the Comhairle can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

Best Value

32. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

33. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- The Annual Audit Report for each council that will provide a rounded picture of the council overall
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

34. The seven councils on which a BVAR will be published during the third year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2019.

Exhibit 6

2018/19 Best Value Assurance Reports



North Lanarkshire Council

Stirling Council

South Lanarkshire Council

Midlothian Council

Highland Council

Scottish Borders Council

Perth and Kinross Council

Source: Audit Scotland

35. The work planned for this year will focus on the Comhairle's arrangements for demonstrating Best Value in delivering on the objectives contained in the Local Outcome and Improvement Plan and how this improvement is measured. The work is integrated with our wider dimension responsibilities and is set out in the strategic plan at [Exhibit 7](#).

36. We will also review the Comhairle's business planning and change management arrangements as set out in the service redesign programme and including workforce planning.

37. The work will involve us gaining an understanding of how effective the Comhairle's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

Strategic plan for the five-year appointment

38. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 7

Strategic plan

Dimension	2016/17 to 2017/18	2018/19	2019/20 to 2020/21
Financial sustainability	Development of longer-term financial planning		Shared services development
Financial management	Financial governance and resource management		Financial governance and resource management
Governance and transparency	Workforce and succession planning and equal opportunities	Business planning (change management)	Community engagement/empowerment
Value for money		Measuring impact on outcomes	Working with partners

Source: Audit Scotland

Independence and objectivity

39. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

40. The engagement lead (i.e. appointed auditor) for the Comhairle is Brian Howarth, Audit Director. 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 the Comhairle.

Quality control

41. 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.

42. 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 (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

43. 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 welcome feedback at any time and this may be directed to the engagement lead.

Comhairle nan Eilean SiarComhairle nan Eilean Siar

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