

Comhairle nan Eilean Siar

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Comhairle nan Eilean Siar
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Comhairle nan Eilean Siar (also referred to as ‘the Comhairle’) main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, and provision of an Independent Auditor’s Report
- an audit opinion on other statutory information published within the annual accounts including the Management Commentary, the Governance Statement and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- review of the Comhairle’s arrangements for preparing and publishing statutory performance information.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Comhairle nan Eilean Siar for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the Comhairle through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Scrutiny Committee and by recommending and encouraging good practice. In so doing, we will help Comhairle nan Eilean Siar promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Comhairle nan Eilean Siar. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. 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 wider scope arrangements in place at the Comhairle. In doing this, we aim to support improvement and accountability.

Comhairle nan Eilean Siar responsibilities

9. The Comhairle is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The Comhairle has 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 deliver their objectives.

Communication of fraud or suspected fraud

11. In line with auditing standards, in presenting this plan to the Audit & Scrutiny Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee or council have any such knowledge or concerns relating to the risk of fraud within the council, we invite them to communicate this to the appointed auditor for consideration.

Financial statements audit planning

Introduction

12. The annual accounts are an essential part of demonstrating the Comhairle's stewardship of resources and its performance in the use of those resources.

13. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Comhairle nan Eilean Siar are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Comhairle nan Eilean Siar

Materiality	Amount	Group
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Comhairle's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£4.2 million	£4.2 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement,</p>	£3.1 million	£3.1 million

we have assessed performance materiality at 75% of planning materiality.

Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£210,000	£210,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of the Comhairle, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a</p>	<p>Owing to the nature of this risk, assurances from management are not applicable</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period.

Significant risk of material misstatement	Sources of assurance	Planned audit response
unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Conduct substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Carry out focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

19. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

20. We have rebutted this risk for the Comhairle because while the possibility of fraud exists, we do not judge it to be significant due to the nature of the Comhairle's revenue streams and key sources of income, namely government grants, that are clearly communicated and can be readily agreed to third party confirmations. We have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

21. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

22. We have rebutted this risk as the main expenditure streams of the Comhairle can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

23. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

24. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider the risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

25. The areas of specific audit focus are:

- The pension liability valuation: this is an area of audit focus due to the material value and significant assumptions used in the calculation of the liability.
- Property, plant, and equipment (PPE): the value of PPE held by the Comhairle is approximately £346 million. Due to the level of complexity and judgement in the estimated valuations, there is an inherent risk of material misstatement in these valuations.
- IT risks - under the revised ISA (International Standards on Auditing) 315 we are required to have a greater understanding of the systems and risk arising from the use of IT systems. Our work in this area is ongoing. We will report any risks and our audit response in our annual audit report.

Group Consideration

26. As group auditors, we are required under International Standard on Auditing (ISA) (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

27. The Comhairle has a group which comprises component entities, including the Western Isles Integration Joint Board (the IJB) as a joint venture. Our planned audit approach for the components is informed by our assessment of risk and our consideration of the size and nature of assets, liabilities and transaction streams.

28. The audits of the financial information of components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

29. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

30. In summary, the four wider scope areas cover the following:

- **Financial management** - means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial sustainability** – means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs. We will consider the extent to which audited bodies have shown regard to financial sustainability and are planning ahead effectively. We look at planning for the medium term (two to five years) and longer term (longer than five years). The audit will include consideration of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term.
- **Vision, leadership and governance** – audited bodies must have a clear vision and strategy and work together with partners and communities to improve outcomes and set priorities for improvement. We will consider the arrangements in place to deliver the vision, strategy and priorities adopted by the Comhairle. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how the Comhairle demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risk

31. We have identified a wider scope audit risk as set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 3

2022/23 wider scope risk

Description of risk	Sources of assurance	Planned audit response
<p>Financial Sustainability</p> <p>The Comhairle continues to operate in an increasingly complex and challenging environment, where core national funding is reducing, relative to rising demand for services.</p> <p>The Comhairle's budget strategy financial projections detail the budget gap over the next ten years. The report shows a budget gap of £3.1m in 2022/23, rising to £5.6 million by 2023/24. Over the ten years there is a forecasted total budget gap of £16.1 million.</p> <p>Financial sustainability remains a risk with ongoing financial pressures in the short to medium term. The Comhairle's Budget Strategy has depended on a phased use of reserves, together with service savings, to achieve a balance budget. The situation in the Comhairle is exacerbated by the increasing costs to deliver key services.</p> <p>There remains a risk to financial sustainability and the sustainability and quality of services in future.</p>	<ul style="list-style-type: none"> • In year monitoring of budgets, pressures, and savings. • Development of the financial strategy for phased use of reserves and to identify further savings. 	<ul style="list-style-type: none"> • Review of the Comhairle's annual budget setting arrangements. • Review and assessment of budget monitoring arrangements. • Review of the Comhairle's medium to longer-term financial planning. • On-going review of the Comhairle's financial position and delivery of planned savings

Source: Audit Scotland

32. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

33. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

34. The Accounts Commission and Auditor General are developing a programme of work on climate change. In 2022/23, we will gather information on the Comhairle's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

35. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the Comhairle's arrangements for managing and mitigating cyber security risks.

Best Value

36. Under the 2021 [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work.

37. Best Value at the Comhairle will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of the Comhairle's approach to demonstrating improvement in its strategic priorities and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

38. In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 the thematic review across the sector will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

Controller of Audit Reports

39. At least once every five years, the Controller of Audit will report to the Accounts Commission on the Comhairle's performance in meeting its Best Value duties. The first year of the programme will be from October 2023 to August

2024 and will cover the following councils: Falkirk; Moray; Clackmannanshire; Orkney Islands; South Ayrshire; Dumfries and Galloway; West Dunbartonshire; and City of Dundee.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

40. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

41. 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 officers to confirm factual accuracy.

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

43. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the deadline of 30 September 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
Annual Audit Plan	31/03/2023	27/04/2023
Independent Auditor's Report	30/09/2023	21/09/2023 TBC
Annual Audit Report	30/09/2023	21/09/2023 TBC

Source: Audit Scotland



Timetable

44. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

45. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

46. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	15 June 2023 TBC
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Director of Finance	TBC September 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	TBC September 2023
Agreement of audited and unsigned annual accounts	TBC September 2023
Issue of Annual Audit Report to those charged with governance.	TBC September 2023
Signed Independent Auditor's Report	21 September 2023 TBC

Source: Audit Scotland

Audit fee

47. In determining the audit fee, we have taken account of the risk exposure of the Comhairle and the planned management assurances in place. The audit fee for 2022/23 is £239,670 (2021/22: £212,960).

48. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

49. In setting the fee for 2022/23 we have assumed that the Comhairle has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

50. It is the responsibility of the Comhairle to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

51. From our initial review of the internal audit plans, we do not intend to use the work of internal audit for our financial statements' responsibilities. However, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

52. Auditors appointed by the Accounts Commission or Auditor General for Scotland 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.

53. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

54. The appointed auditor for Comhairle nan Eilean Siar is Gillian Woolman, Audit Director. The appointed auditor will be changing, effective from 31 March 2023. Audit Scotland has put in place a handover process to ensure a smooth transition. The Comhairle will be advised of the new appointed auditor in due course.

55. 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 Comhairle nan Eilean Siar.

Audit Quality

56. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

57. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

58. ISQC (UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM (UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

59. Audit Scotland is committed to delivering high quality audits. 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 supplementary guidance) issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants in England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

60. 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.

Appendix 1. Your audit team

61. The audit team involved in the audit of the Comhairle have significant experience in public sector audit.

Gillian Woolman

Audit Director

gwoolman@audit-scotland.gov.uk

Gillian has 27 years of public sector audit experience. She has been an engagement lead since 2001 in the local government, central government and NHS sectors. She is a member of ICAEW and CIPFA UK-wide committees.

Asif A Haseeb OBE

Senior Audit Manager

ahaseeb@audit-scotland.gov.uk

Asif has over 29 years of public sector audit experience and substantial financial management and board level experience in the public sector gained through non-executive membership of various boards (currently member of Court of Glasgow Caledonian University). He is also a Justice of the Peace (lay magistrate).

Martin Devenny

Senior Auditor

mdevenny@audit-scotland.gov.uk

Martin Devenny has considerable experience in planning and delivering audits. Martin will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

62. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

63. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Comhairle nan Eilean Siar

Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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